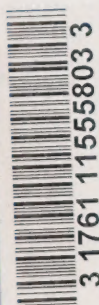


RESTORING FISCAL BALANCE
FOR A STRONGER FEDERATION

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TO A STRONGER, SAFER, BETTER CANADA




CANADA'S NEW GOVERNMENT

BUDGET 2007

MARCH 19, 2007

Canada



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Department of Finance
Canada

Ministère des Finances
Canada



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Restoring Fiscal Balance for a Stronger Federation

"There's been a lot of talk about fiscal balance....But what is it really about? It's about better roads and renewed public transit. Better health care. Better-equipped universities. Cleaner oceans, rivers, lakes and air. Training, to help Canadians get the skills they need. It's about building a better future for our country. And that means getting adequate funding to provincial and territorial governments....Through this budget, we are delivering an historic plan worth over \$39 billion in additional funding to restore fiscal balance in Canada."

The Honourable Jim Flaherty, Minister of Finance
The Budget Speech
March 19, 2007

Canada's New Government is building a stronger federation in which all governments come together to help Canadians realize their potential. This stronger federation is built on a vision of open federalism, with more respectful relations with taxpayers and governments, and with greater collaboration to deliver results for Canadians.

Budget 2006 took a major step to resolving fiscal balance by setting out a principles-based plan and taking immediate action.

Budget 2007 follows through on every commitment of the plan and goes further.

- It restores fiscal balance with provinces and territories by putting transfers on a long-term principles-based footing.
- It takes another step towards restoring fiscal balance with Canadian taxpayers through major tax reductions and the Tax Back Guarantee.
- It makes governments more accountable to Canadians by clarifying roles and responsibilities.
- It strengthens the economic union based on the plan set out in *Advantage Canada*.



With fiscal balance restored, governments can focus on what matters to Canadians: strengthening our health care system; achieving excellence and accessibility in our post-secondary education system; ensuring that we have skilled workers to meet the needs of our economy and compete with the best in the world; helping make training available to those who need it; making progress on environmental challenges; creating better roads and transit systems; and building a stronger economic union.

Restoring Fiscal Balance With Provinces and Territories

Budget 2007 restores fiscal balance with provinces, territories and municipalities by providing long-term, equitable and predictable funding for shared priorities. It provides \$39 billion in additional funding over seven years.

- Renewed and strengthened Equalization, providing \$1.5 billion more in 2007–08 than last year, will ensure fair treatment of Canadians in all parts of the country and enable provinces to provide their residents with comparable levels of services at comparable levels of taxation. The new program will provide an estimated \$1.9 billion more over two years than the previous system.
- Renewed and strengthened Territorial Formula Financing (TFF) that reflects the unique circumstances and high costs in the north, providing \$115 million more in 2007–08. This means an estimated \$162 million more over two years than the previous system.
- Full implementation of the *10-Year Plan to Strengthen Health Care*, providing \$1.2 billion more to provinces and territories in 2007–08.
- A new approach to support post-secondary education, children and social programs through a strengthened Canada Social Transfer (CST). The CST will be legislated to 2013–14, with an automatic 3-per-cent escalator, and be made more transparent. It includes \$800 million more for post-secondary education and \$250 million for child care spaces, beginning in 2008–09. This means over \$16 billion in new funding over seven years.
- Ensuring equal support for all Canadians through an investment of almost \$700 million in equal per capita support under the CST in 2007–08 and legislation of equal per capita cash support under the Canada Health Transfer when it is renewed.
- \$500 million annually starting in 2008–09 for a new approach to labour market training to help ensure that Canadians who need skills training will receive it. This provides a total of \$3 billion more for training by 2013–14.



- Ensuring long-term, predictable funding for infrastructure, building on Budget 2006 investments. This new long-term plan for infrastructure will mean federal support will grow from \$3.2 billion per year when this Government took office, to nearly \$5.7 billion per year by 2013–14. This means more than \$16 billion in new funding over the next seven years.

Restoring Fiscal Balance With Canadian Taxpayers

Canadians pay too much in taxes. The Government is working to restore fiscal balance with Canadians, and has and will continue to reduce taxes so that it only raises the revenues that it needs to fulfill its responsibilities. Budget 2007 delivers:

- \$9.7 billion in tax relief, leaving more money in the pockets of Canadians and providing businesses with a more competitive tax environment.
- A new approach to allocating surpluses through a Tax Back Guarantee to ensure that Canadians benefit directly from federal debt reduction through lower personal income taxes. Already, the Tax Back Guarantee will reduce personal income taxes by \$2.4 billion in the next two years, representing one-quarter of the \$9.7 billion in tax relief that this budget provides.
- Disciplined spending by limiting the growth in program spending on average to below the rate of growth of the economy and implementing a new Expenditure Management System.

Making Governments More Accountable by Clarifying Roles and Responsibilities

Budget 2007 enhances the accountability of governments toward Canadians by clarifying roles and responsibilities—and lets each order of government focus on what it does best through:

- Focused spending in areas of core federal responsibility.
- Limiting the federal spending power.
- Greater transparency in federal budget planning.
- Greater transparency in the areas supported by the CST, through earmarking of support for post-secondary education, children and other social programs.
- A new approach to labour market training that recognizes that provinces and territories are best placed to deliver and design labour market training programs.



Working Together for a Stronger Economic Union

With fiscal balance restored, governments can now focus on building a stronger and more prosperous Canada. *Advantage Canada* presented a comprehensive plan aimed at fostering a stronger economic union. Budget 2007 delivers a number of measures to further strengthen Canada's economic union, including:

- Financial incentives for provinces to eliminate or accelerate the elimination of their capital taxes.
- Enhanced labour market training programs and strengthened programs for immigrants to make sure employers have access to the people they need to increase our prosperity.
- A Working Income Tax Benefit to remove barriers to work for low- and modest-income Canadians.
- Launching a plan to create a Canadian advantage in global capital markets.

A Better Future for Canada

Budget 2007 fulfills the Government's commitment to restore fiscal balance. It is a comprehensive, long-term plan that responds to concerns raised by Canadians, and by provinces and territories. Cash funding to provinces and territories, which stood at \$43 billion when this Government took office in 2006, will be at least \$18 billion higher in 2013–14.

The plan is sustainable, affordable and fair, and recognizes that all governments are answerable to Canadians—and must deliver results.

Moving forward, the Government will maintain fiscal balance by respecting the principles it has established.

It will continue to reduce the tax burden on Canadians including through the Tax Back Guarantee, and be disciplined in its spending.

It will provide ongoing support to provinces and territories, and work with them collaboratively to deliver results for Canadians.

It will continue to focus on what it does best and only what the Government of Canada can do for all Canadians.

It will work in collaboration with provinces, territories and stakeholders to build a stronger economic union for a more prosperous Canada.



Overview

Canada's New Government is building a stronger federation in which all governments come together to help Canadians realize their potential. This stronger federation is built on a vision of open federalism and respectful relations, where governments collaborate effectively to deliver results for Canadians.

For many years, governments have worked together to create a network of quality services—a public health care system that reflects Canada's shared values and national identity, a quality post-secondary education system with one of the highest graduation rates in the world, social programs that we are proud of, and a modern infrastructure system that spans our vast country.

Since the mid-1990s, however, there have been concerns about fiscal balance in Canada—and the tension that ensued among governments undermined their ability to work effectively together.

Canadians have grown tired of the intergovernmental bickering over fiscal balance issues, and want them resolved.

Budget 2006 began to act on these concerns by acknowledging the need to restore fiscal balance in the federation through a principles-based plan and by fostering a new spirit of open federalism.

Budget 2007 restores fiscal balance in Canada. This will help to bring an end to intergovernmental disputes and allow governments to focus on the things that matter to Canadians: to strengthen our health care system; to achieve excellence and accessibility in our post-secondary education system; to ensure that we have skilled workers to meet the needs of our economy and compete with the best in the world; to help make training available to those who need it; to make progress on environmental challenges; to create better roads and transit systems; and to build a stronger economic union.

Restoring fiscal balance is a historic achievement. By restoring fiscal balance, Canada's New Government is laying the foundations for a stronger federation. A restored fiscal balance will ensure provinces and territories have both the means and clarity of purpose to develop and provide programs and services that serve Canadians well. All Canadians will benefit from the provinces and territories being well equipped to invest in health care, post-secondary education, modern infrastructure and social programs.



With fiscal balance restored, governments can now go forward and focus on building a stronger and more prosperous Canada. *Advantage Canada* presented a comprehensive plan aimed at fostering a stronger economic union. In the coming months, the Government will be working on this plan, in collaboration with provinces, territories and stakeholders, to build a better future for Canada.

Budget 2006: A Plan to Restore Fiscal Balance

Identifying Concerns and Establishing Principles

In Budget 2006, the Government presented its approach to restore fiscal balance in *Restoring Fiscal Balance in Canada*. It identified a number of issues that have created strains in the federation:

- Concerns that federal budgeting had not been sufficiently transparent, in particular that the federal government, in the past, had generated large unanticipated surpluses that had been used to spend in areas of provincial-territorial responsibility.
- Concerns about blurred accountability to taxpayers and reduced clarity with respect to roles and responsibilities of each order of government.
- Concerns that some transfers—Equalization, Territorial Formula Financing and funding for post-secondary education, training and infrastructure—needed to be put on a principles-based, predictable long-term track.
- Finally, the need for governments, separately and working together, to build a more competitive and efficient economic union.

The Government committed to respond to these concerns by developing a comprehensive solution based on five key principles:

- Accountability through clarity of roles and responsibilities.
- Fiscal responsibility and budget transparency.
- Predictable, long-term fiscal arrangements.
- A competitive and efficient economic union.
- Effective collaborative management of the federation.



Early Action in Budget 2006

Guided by these principles, the Government took immediate action in Budget 2006. It moved to restore fiscal balance with the taxpayers of Canada through \$26 billion in tax reductions. It reaffirmed its support for long-term, predictable funding for health care. Budget 2006 also made significant new investments in infrastructure and provided \$3.3 billion in funding to provinces and territories for short-term pressures in post-secondary education, affordable housing and public transit.

Budget 2006 introduced measures to enhance federal fiscal responsibility and transparency in budget planning. It brought more clarity to the roles and responsibilities of governments by focusing spending in areas of core federal responsibility such as defence and security.

A Framework to Resolve Fiscal Balance

Budget 2006 committed to follow up with specific measures—following consultations with provinces, territories, academics and other stakeholders—to restore fiscal balance. Specifically, Canada's New Government committed to deliver in Budget 2007:

- A renewed and strengthened Equalization program.
- A renewed and strengthened Territorial Formula Financing program.
- A new approach to long-term funding support for post-secondary education.
- A new approach to long-term funding support for training.
- A new long-term plan for infrastructure.
- A new approach to allocating unplanned federal surpluses.

The Government also committed to move forward on fiscal balance in a principled way by:

- Further clarifying roles and responsibilities by focusing new spending on areas of core federal responsibility and limiting the use of the federal spending power.
- Working, in collaboration with other levels of government, to strengthen the economic union.



Fiscal Balance Consultations

In Budget 2006, the Government of Canada committed to consult provinces and territories, parliamentarians, academics and experts, and individual Canadians on its approach to restoring fiscal balance.

The Government of Canada sought the views of individual Canadians through online consultations.

The Minister of Finance met with his provincial/territorial counterparts in Niagara-on-the-Lake in June 2006, and again in Vancouver in December 2006.

The Ministers of Intergovernmental Affairs, Health, Transport, Infrastructure and Communities, and Human Resources and Social Development consulted their provincial and territorial counterparts on issues related to fiscal balance, such as the federal spending power, patient wait times guarantee and the federal role in infrastructure, post-secondary education and training.

A series of consultations was also held with academics and experts on fiscal balance issues.

A summary of what was heard in those consultations has been made available on the Department of Finance website at www.fin.gc.ca.

Budget 2007 Restores Fiscal Balance

Canadians want fiscal balance restored so governments can get on with working together to deliver results. Building on the progress to date, Budget 2007 proposes a comprehensive plan to restore fiscal balance, including further tax reductions. It delivers on each of the specific commitments made in Budget 2006, and goes even further. It does so in a principled way, in a national context, and by respecting existing agreements and commitments. The plan:

- Restores fiscal balance with provinces and territories by putting transfers on a long-term principles-based footing.
- Takes another step towards restoring fiscal balance with Canadian taxpayers through major tax reductions and the Tax Back Guarantee.
- Makes governments more accountable to Canadians by clarifying roles and responsibilities.
- Strengthens the economic union based on the plan set out in *Advantage Canada*.



Restoring Fiscal Balance With Provinces and Territories

Budget 2007 restores fiscal balance with provinces, territories and municipalities by providing more than \$39 billion over seven years in long-term, equitable and predictable funding for shared priorities.

Renewing and Strengthening Equalization

The purpose of Equalization is to ensure that all Canadians, wherever they live, have access to reasonably comparable services at reasonably comparable levels of taxation. The principle of equalization has been enshrined in the Constitution of Canada since 1982, and reflects Canadians' strong commitment to fairness.

In practical terms, this means that, for example, the Government of Prince Edward Island receives close to \$2,200 per person in Equalization to recognize that its revenue-raising capacity—the amount it could raise if it levied average tax rates—is \$2,200 less than the national average. These payments are critical to Prince Edward Island, as they represent close to 25 per cent of the province's total revenues.

Other provinces with less than average revenue-raising capacity also receive Equalization payments to ensure that their revenues are brought up to the point where they can provide comparable programs and services. When a province has a revenue-raising capacity above the national average—for example, Alberta—it does not receive Equalization payments.



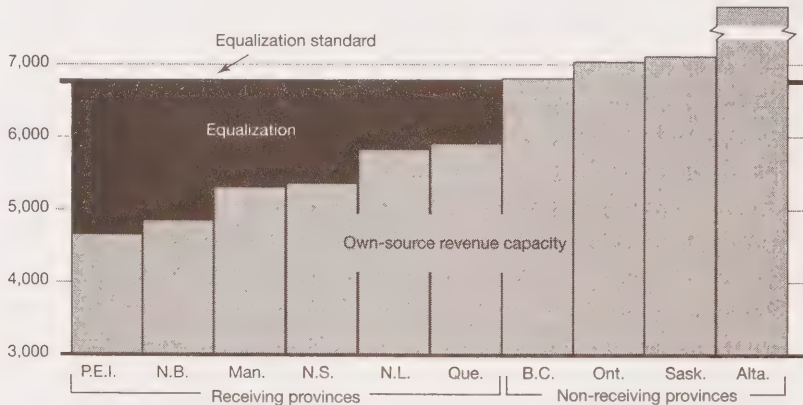
Canada's Equalization Program

- The Equalization program has existed since 1957, and the principle has been enshrined in the Constitution of Canada since 1982.
- Equalization payments are entirely funded by federal revenue sources. Provinces do not make payments to each other.
- Equalization payments are unconditional. This means that provinces are able to direct these funds to their own priorities.
- Equalization payments are made only to the less prosperous provinces. The lower a province's fiscal capacity, the more per capita it receives.
- Equalization is not a permanent entitlement. As a province's economic fortunes improve, its Equalization payments will decline. Conversely, as a province's economic fortunes decline, its Equalization payments will increase.

Chart 1

How Equalization Works

dollars per capita



Note: Determination of 2007-08 guaranteed minimum allocation.

Source: Department of Finance.



A Review of Equalization

In 2004 and 2005, changes were made to the Equalization program that represented a significant departure from its long-standing operations and principles. In particular, normal formula-based calculations of provincial entitlements were suspended; an interim formula was used to allocate payments; and a new financial “framework” for Equalization was introduced that separated the Equalization standard from the overall measurement of fiscal disparities.

In light of these changes, as well as questions about the treatment of natural resources in the program and the enrichments that were made to the companion arrangements, the Offshore Accords, a review of the Equalization program by the independent Expert Panel on Equalization and Territorial Formula Financing, chaired by former Deputy Provincial Treasurer of Alberta, Al O’Brien, was launched in 2005.

Budget 2006 Committed to Put Equalization Back on Track

When Canada’s New Government came to office, it recognized the need to put Equalization back on a sound formula basis. Budget 2006 therefore committed to taking action after consultations were undertaken with Canadians and with provinces, and the Expert Panel’s report and other proposals to improve the program were examined.

In establishing a new Equalization program, the Government committed to ensure a treatment of non-renewable resource revenues that encourages economic growth through the development of these resources. It also said it would respect the Offshore Accords, which were signed between the Government of Canada and the Governments of Newfoundland and Labrador and Nova Scotia and designed to support these provinces in dealing with their unique fiscal challenges, particularly their high debt burdens.

Budget 2007 Implements the Recommendations of the Expert Panel on Equalization

Budget 2007 delivers a new Equalization program that is fair to Canadians living in all provinces. It will be formula-driven and principled. It will be simplified to enhance transparency and accountability. It will be stable and predictable. It will meet the commitments related to exclusion of non-renewable resources and respecting the Offshore Accords.



In June 2006, the Government received the final report of the Expert Panel on Equalization, entitled *Achieving A National Purpose: Putting Equalization Back on Track* (O'Brien report), which proposed a comprehensive, principles-based set of reforms to Canada's Equalization program. Based on a careful review of the report and extensive consultations with Canadians and provincial governments, the Government has concluded that the Expert Panel's recommendations strike a reasonable balance among the divergent views and interests of provinces. They form a solid foundation upon which to renew this program.

Budget 2007 proposes to implement the recommendations of the O'Brien report, which include:

- A higher Equalization standard reflecting the fiscal capacity of all 10 provinces (the "10-province standard"). This standard ensures that Equalization brings the revenue-raising capacity of less prosperous provinces up to the national average.
- A new approach to the treatment of natural resource revenues under which resource-producing provinces would retain additional fiscal benefits from their resources through a 50-per-cent exclusion of those revenues from the calculation of Equalization payments.
- A fiscal capacity cap to ensure that Equalization payments do not unfairly bring a receiving province's overall fiscal capacity to a level higher than that of any non-receiving province.
- An improved measurement of fiscal capacity that adopts a market-value base for residential property taxes and excludes user fee revenues; a simplified measure of capacity that reduces the number of tax bases from 33 to 5; and a simplified estimate and payment system to increase the predictability and stability of payments.

A Strengthened Equalization Program Allows Comparable Treatment for All Canadians

The new Equalization program ensures that Equalization-receiving provinces have the necessary resources to provide reasonably comparable programs and services as those provided by provinces with higher own-source revenues. The strengthened program also allows the Government to provide comparable treatment to Canadians in other major federal transfers—a principle supported in *Advantage Canada* and the O'Brien report.



Accordingly, Budget 2007 proposes to legislate an equal per capita cash allocation for both major transfers, the Canada Social Transfer (CST) and the Canada Health Transfer (CHT), as they are renewed. By doing so, Budget 2007 will eliminate what the O'Brien report referred to as "back door" equalization in these programs and make the federal contribution more transparent.

- The new equal per capita cash allocation will become effective for the CST in 2007–08, as its legislation is being renewed and strengthened in this budget.
- To respect the agreement on the *10-Year Plan to Strengthen Health Care*—which was signed by all First Ministers—the move to an equal per capita cash allocation for the CHT will be legislated to take effect in 2014–15, when the current legislation expires.

Taken together, these measures—the introduction of a strengthened Equalization program combined with a fiscal capacity cap and an equal per capita cash allocation in other major federal transfers—ensure that the new transfer system is more generous than before and that fundamental fairness is brought back to fiscal arrangements.

Fulfilling the Commitment to Exclude Non-Renewable Resource Revenues

The core elements of the O'Brien report—a 10-province standard with a 50-per-cent exclusion rate for natural resource revenues and a fiscal capacity cap—provide a higher Equalization standard than either the previous system or one that fully excludes non-renewable resources. As a result, the O'Brien formula provides both a substantial incentive to provinces to develop their natural resources and higher payments to most provinces than one that fully excludes non-renewable resources.

Consistent with the Government's commitment, Budget 2007 proposes to ensure that, under the new Equalization formula, all provinces will receive the greater of the Equalization entitlements under the formula based on a 50-per-cent exclusion rate, and the amounts they would receive under the same formula based on full exclusion of all natural resource revenues. This will further improve incentives for resource-producing provinces and provide them additional protection against future declines in resource prices and production levels, and fulfill the Government's commitment to fully exclude non-renewable natural resources revenues from the calculation of Equalization—without lowering the payments to any province.



Fulfilling the Commitment to Respect the Offshore Accords

To respect the Offshore Accords, Nova Scotia and Newfoundland and Labrador may continue to operate under the previous Equalization system until their existing offshore agreements expire. This fulfills and builds upon the Government's commitment to respect the Offshore Accords and ensures that these provinces will continue to receive the full benefit that they are entitled to under the previous system. These provinces can permanently opt into the new Equalization system at any point in the future.

Ensuring a Smooth Transition

In moving to this new Equalization program, the Government recognizes the importance of ensuring a smooth transition given the fundamental nature of the changes being proposed in this budget. That is why, in January 2007, the Government provided provinces with estimates of their 2007-08 payments based on the previous system and a guarantee that, under the renewed Equalization program, provinces would not receive less than these amounts in 2007-08. This has allowed provinces to plan their respective budgets with certainty for the coming fiscal year, knowing the minimum amount that they would receive.

Building on this commitment to ensure a smooth transition and provide certainty in budget planning, Budget 2007 will also ensure that no province or territory will receive lower cash transfers under the CST or CHT relative to what they would have received in 2007-08 prior to the implementation of the new Equalization system and an equal per capita cash allocation. The provision of such protection will amount to an estimated \$282 million over five years. The Government also commits to providing similar protection when the CHT allocation is moved to an equal per capita cash basis in 2014-15.

Budget 2007 also proposes transition measures to ensure a smooth implementation of the proposed residential property tax base. Of all the changes to the measurement of fiscal capacity, the single largest impact stems from the move to a new residential property tax base based on market value. Nowhere is this more important than in British Columbia, which has seen significant increases in its housing prices. Budget 2007 proposes, for a three-year transitional period, to provide additional protection to British Columbia by retaining the existing adjustment factor for residential property tax in the calculation of its Equalization payments. Payments to other provinces will not be affected by the provision of such protection.



More details on the new Equalization program and accompanying transition measures can be found in Annex 4 of *The Budget Plan*.

New Equalization Program Provides More Than \$12.7 billion

For 2007–08, the new Equalization program will provide more than \$12.7 billion, \$1.5 billion higher than payments made in 2006–07. Over time, the cost of Equalization will fluctuate in relation to fiscal disparities: as disparities widen, the cost of Equalization will rise, and as disparities narrow, the cost of Equalization will fall.

The following table shows the legislated payments for 2006–07, the guaranteed minimum (based on the previous system) provided to provinces to give them certainty in budget planning, and entitlements for 2007–08 under the renewed Equalization program. It assumes that Newfoundland and Labrador and Nova Scotia continue to operate under the previous Equalization system in 2007–08.

Table 1

A New Equalization Program Provides Significant Benefits to Equalization-Receiving Provinces

	N.L. ¹	P.E.I.	N.S. ¹	N.B.	Que.	Man.	Sask.	B.C.	Total
(millions of dollars)									
2006–07 legislated payments	632	291	1,386	1,451	5,539	1,709	13	260	11,282
Offshore offsets	329		57						386
2007–08 guaranteed minimum allocation	477	291	1,308	1,435	6,462	1,703	–	–	11,676
Offshore offsets	494		130						624
2007–08 renewed Equalization	477	294	1,308	1,477	7,160	1,826	226	–	12,768
Offshore offsets	494		130						624
Change From Guaranteed Minimum Allocation									
millions of dollars	–	3	–	42	698	123	226	–	1,092
dollars per capita	–	22	–	56	91	104	230	–	

Note: Totals may not add due to rounding.

¹ If Newfoundland and Labrador and Nova Scotia were to opt to move into the new program, Newfoundland and Labrador would be entitled to \$521 million in Equalization and \$212 million in offset amounts while Nova Scotia would be entitled to \$1,465 million in Equalization and \$68 million in offset amounts.

Source: Department of Finance.



Renewing and Strengthening Territorial Formula Financing

The situation in Canada's three territories is vastly different from the challenges faced by provinces: the majority of communities are small and isolated; population growth tends to outpace that in the rest of Canada; and costs, including the cost of providing public services, are very high. Territorial Formula Financing (TFF) is the federal program that recognizes these unique circumstances and provides territorial governments with the resources they need to deliver services comparable to those that Canadians enjoy in the rest of Canada.

A well-funded and well-functioning TFF program is critical for essential public services in the north, such as hospitals, schools, infrastructure and social services, since the TFF grant makes up almost two-thirds of government revenues in the Yukon and Northwest Territories, and more than three-quarters of Nunavut's revenues.

In 2004, changes were made to the long-standing operation of TFF similar in nature to those made to the Equalization program. In particular, normal formula-based calculations of territorial payments were suspended; an interim formula was used to allocate payments; and a new financial "framework" for TFF was introduced that separated the total size of TFF from the overall measurement of need.

The Expert Panel on Equalization and Territorial Formula Financing was asked, among other things, to provide advice on the allocation of TFF among the three territories, ways of making TFF payments more stable and predictable, and ways of measuring the costs of providing services in the territories.

In Budget 2006, the Government committed to return TFF to a principles-based formula after reviewing the report of the Expert Panel, as well as other recommendations to strengthen TFF. Budget 2007 delivers on that commitment.



Budget 2007 Implements the Recommendations of the Expert Panel on TFF

Canada's New Government reviewed the report of the Expert Panel on TFF, entitled *Achieving a National Purpose: Improving Territorial Formula Financing and Strengthening Canada's Territories* (O'Brien report), and undertook extensive consultations.

Budget 2007 implements the O'Brien report's recommendations, which were endorsed by all three territories. The proposed reforms return TFF to a formula-based approach that respects the principles of fairness and predictability and reflects the Government's commitments to the continued development of the north. Consistent with the O'Brien report's recommendations, the main features of the new TFF are:

- A formula-driven approach providing three gap-filling grants to recognize the different circumstances in each of the three territories.
- A simplified approach to the measurement of territorial revenues in the formula.
- Improved incentives for the territories to increase their own revenues and develop their economies.
- A simplified estimate and payment system to increase predictability.

Under the new TFF, total payments will amount to \$2.2 billion in 2007–08, \$115 million higher than in 2006–07. The following table shows the legislated payments for 2006–07, the guaranteed minimum (based on the previous system) provided to territories to give them certainty in budget planning, and entitlements for 2007–08 under the renewed TFF program.



Table 2

A New TFF Program Provides Significant Benefits to the Three Territories

	Northwest Territories	Yukon	Nunavut	Total
	(millions of dollars)			
2006–07 legislated payments	753	514	839	2,106
2007–08 guaranteed minimum allocation	778	537	865	2,180
2007–08 renewed TFF	788	540	893	2,221
Change From Guaranteed Minimum Allocation				
millions of dollars	10	3	28	41
dollars per capita	240	107	888	

Note: In addition, one-time payments of \$54.4 million in 2006–07 to the Northwest Territories to compensate for the impact of a large tax refund and \$3.5 million in 2007–08 to the Yukon to honour Canada's remaining transitional funding obligations under the Yukon Devolution Transfer Agreement. Totals may not add due to rounding.

Source: Department of Finance.

More details on the new approach can be found in Annex 4 of *The Budget Plan*.

With the TFF program on a renewed, principles-based footing, the Government will move ahead with negotiations to devolve onshore natural resource management responsibilities and resource revenues to the territories. As recommended by the O'Brien report, the Government will continue to treat natural resource revenues outside of TFF. Consistent with Equalization, 50 per cent of resource revenues will be excluded from the offset calculation against the TFF grant up to an overall cap, providing a net fiscal benefit and an additional incentive to develop natural resources.

While the situation in all three territories is vastly different from the challenges faced by provinces, nowhere is this more evident than in Nunavut. There exist significant disparities between Nunavut and the rest of the country in key areas such as health, education and social well-being. The Government remains committed to improving the situation in our newest territory.

Budget 2006 provided \$200 million in funding for affordable housing in Nunavut. In addition to the significant increases associated with the restoration of fiscal balance, and to address what both the Auditor General of Canada and the Government of Nunavut have indicated is a key priority, Budget 2007 will provide an additional \$23 million to strengthen financial management practices and systems in Nunavut.



A New Approach for Long-Term Support for Post-Secondary Education and Other Social Priorities

Renewing and Strengthening the Canada Social Transfer

The Canada Social Transfer is the main federal transfer program providing financial support to provinces and territories for post-secondary education and social assistance and social services, including early childhood development and early learning and child care. This support touches the lives of every Canadian, helping our universities and colleges be among the best in the world and supporting provinces and territories in delivering social assistance and social services that reduce poverty and protect vulnerable Canadians. The CST has also included support for an emerging national priority—early childhood development programs and the creation of flexible child care spaces.

In 2006–07, the CST provided \$8.5 billion in cash to provinces and territories. The current CST legislation, however, is set to expire at the end of 2007–08. This raised concerns over the predictability and stability of funding flowing to provinces and territories in support of important social programs.

There have also been concerns regarding:

- The accountability and transparency of the CST—Canadians are not informed of how much federal support is being provided to each of the three priority areas that the CST supports (post-secondary education, social assistance and social services, and support for children).
- The fact that the CST does not provide equal cash support to all Canadians.

Budget 2007 proposes to put the CST on a long-term, predictable path, and make it more transparent and fair, by:

- Extending the CST to 2013–14, putting it on the same long-term legislative track as the CHT, as well as the ones proposed for Equalization and TFF.
- Increasing cash payments under the CST through an annual 3-per-cent escalator, starting in 2009–10, to ensure predictable and sustainable increases broadly in line with population growth and inflation.
- Identifying federal transfer support within the CST, based on current provincial and territorial spending patterns and existing child care agreements, for each priority area—post-secondary education, social programs and support for children—to enhance the transparency of federal support for shared priorities.



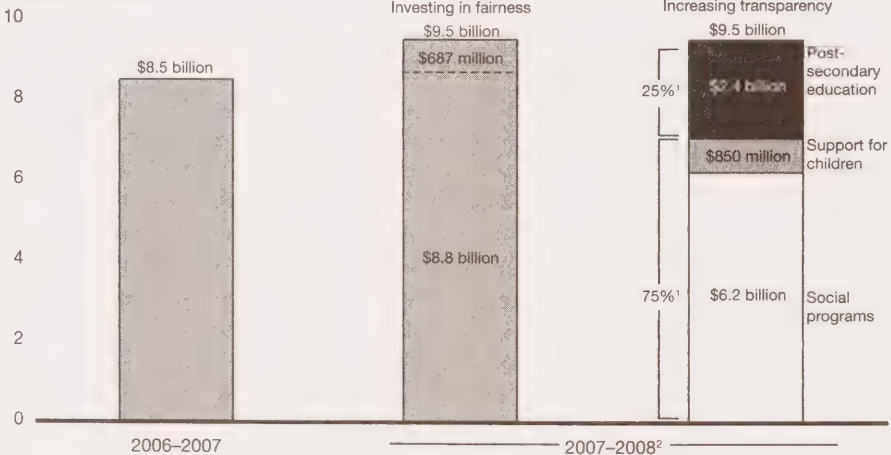
- Allocating cash support on an equal per capita basis to ensure equal treatment of all provinces and territories, starting in 2007–08. To bring Ontario, Alberta and the Northwest Territories to the same per capita cash support as that of other provinces and territories, while ensuring that no province or territory is unduly affected by this change, total CST cash levels will be increased by \$687 million in 2007–08.

Starting in 2007–08, the CST will be earmarked according to provincial-territorial spending patterns. The chart below shows how the CST will increase by about \$1 billion in 2007–08 as a result of the increase in base funding of \$300 million, as specified in the existing legislation, and a \$687-million increase from the move to fairness to adopt the equal per capita cash support. The chart also shows how the CST will be earmarked in 2007–08 and beyond to show the federal contribution for each of the major areas the CST supports, reflecting provincial-territorial spending patterns.

Chart 2

Investing \$687 Million to Improve Fairness Through Equal Per Capita Cash Support, and Enhancing Transparency of the CST

billions of dollars



Note: Totals may not add due to rounding.

¹ Percentages based on provincial-territorial spending patterns.

² Increases in 2007–08 include \$687 million for moving to equal per capita cash (\$176 million to post-secondary education and \$511 million to social programs) and the \$300-million legislated increase in CST cash (\$77 million to post-secondary education and \$223 million to social programs and children).

Sources: Statistics Canada, Financial Management System data, June 2006; Department of Finance.



Investing in Post-Secondary Education

Canadians understand that a strong system of higher education is a crucial source of ideas and innovation—creative energy that our economy needs to foster national prosperity. Canadians also know that having a post-secondary education contributes to their own well-being and that of their communities.

Budget 2007 proposes to increase the CST by \$800 million per year for provinces and territories with the objective of strengthening the quality and competitiveness of Canada's post-secondary education system.

As elaborated in Chapter 5 of *The Budget Plan* in the “Knowledge Advantage” section, the increase will take effect in 2008–09, following discussions with provinces and territories on how best to make use of those new investments and ensure appropriate reporting and accountability to Canadians. These discussions will build on the valuable work already undertaken by the Council of the Federation.

CST funding for post-secondary education will be \$3.2 billion in 2008–09, an \$800-million increase over 2007–08 funding levels. Just as importantly, this support will continue to grow over time as a result of the annual 3-per-cent escalator that is part of the renewed CST.

This increased, earmarked funding meets the Government's commitment to deliver a new approach to funding support for post-secondary education by ensuring long-term, predictable support for provinces and territories, and greater transparency and accountability to Canadians.

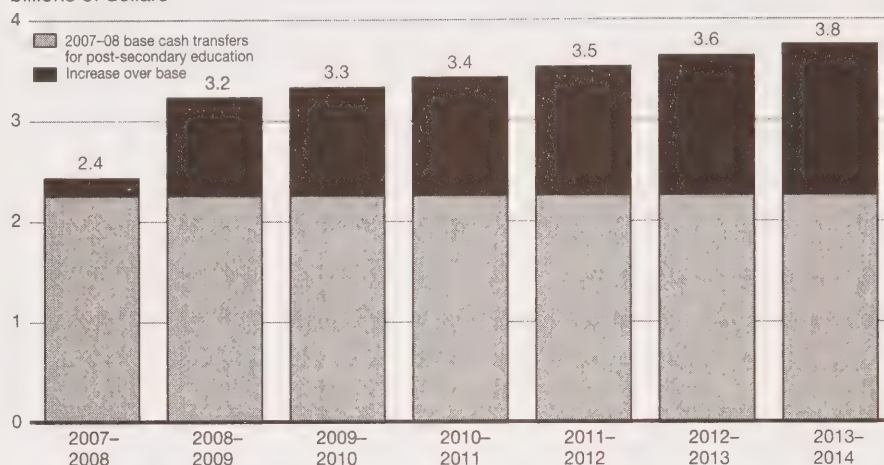
The following chart shows the increase in post-secondary education funding under the new approach.



Chart 3

Increasing Transfer Support for Post-Secondary Education

billions of dollars



Note: New funding includes moving to equal per capita cash, which will provide \$176 million for post-secondary education on an ongoing basis starting in 2007-08; new investments in post-secondary education, which will provide \$800 million on an ongoing basis starting in 2008-09; and a 3-per-cent escalator starting in 2009-10.

Source: Department of Finance.

This transfer to provinces and territories is only one way that the federal government provides support for post-secondary education.

Federal Support for Post-Secondary Education

The Government of Canada will provide over \$8.4 billion in 2007-08 in support of post-secondary education through transfers, direct spending and tax measures:

- \$2.4 billion in transfers in 2007-08 to provinces and territories through the CST, rising to \$3.2 billion in 2008-09 as a result of Budget 2007 new investments.
- \$1.7 billion to help students and families save for their education and deal with tuition and other costs via the tax system, including the tuition, education and textbook tax credits and carry-forward of unused credits. Budget 2007 makes registered education savings plans more responsive to the changing needs of education and encourages parents to save.

**Federal Support for Post-Secondary Education** *(cont'd)*

- \$2 billion to help students deal with the costs of education through grants, scholarships and loan programs, including the Canada Millennium Scholarship Foundation and Canada Student Loans Program (CSLP). This includes Budget 2007 investments of \$35 million over two years to bring support for graduate scholarships to its highest level in Canadian history. Budget 2007 launches a review of the CSLP aimed at modernizing and simplifying this important student financial assistance program.
- \$2.3 billion to fund research and related activities in post-secondary institutions, including new support announced in this budget for granting councils such as the Natural Sciences and Engineering Research Council of Canada and the Canada Foundation for Innovation.

Supporting the Creation of New Child Care Spaces

In Budget 2006, Canada's New Government introduced the Universal Child Care Plan, a two-pronged strategy to provide support for families with children. In July 2006, parents began receiving support of \$100 per month for every child under age 6, to be used for the priorities identified by parents as they determine how best to balance home, work and other commitments. Recognizing that parents often choose to use child care services, the Government also committed to provide \$250 million annually to support the creation of up to 25,000 new spaces beginning in 2007–08.

Building on consultations with other governments and service providers, the Government is delivering on this commitment in Budget 2007.

Budget 2007 proposes to provide a 25-per-cent investment tax credit to businesses that create new child care spaces in the workplace to a maximum of \$10,000 per space created. It also proposes to provide annual additional funding of \$250 million to provinces and territories to support the creation of child care spaces that are responsive to the needs of parents, and are administered in an efficient and accountable manner. This funding will continue to grow over time as a result of the annual 3-per-cent escalator that is part of the renewed CST.



Funding will flow through the CST, beginning in 2008–09, upon completion of discussions with provinces and territories on how best to make use of those new investments and to ensure reporting and accountability to Canadians. While these discussions are ongoing and to fully honour the commitment made in Budget 2006, Budget 2007 provides a transition payment to provinces and territories of \$250 million for 2007–08 to support the child care spaces objective, allocated on an equal per capita basis.

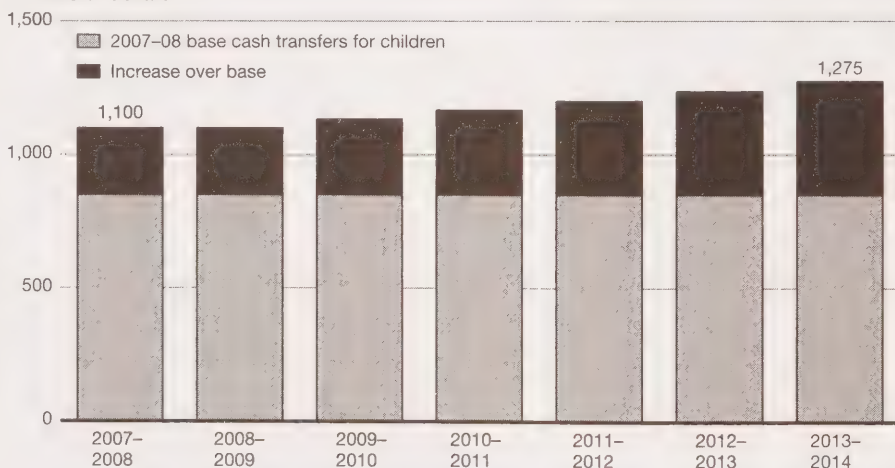
Moreover, Budget 2007 announces the extension of existing funding of \$850 million, provided within the CST in support of federal-provincial-territorial arrangements established in 2000 and 2003 for early childhood development and early learning and child care. These federal funding arrangements will be extended to 2013–14.

These actions will increase support for children through the CST to \$1.1 billion in 2008–09. This support will grow to almost \$1.3 billion by 2013–14.

Chart 4

Increasing Transfer Support for Children

millions of dollars



Note: New funding includes \$250 million for the creation of child care spaces, provided through a transitional payment in 2007–08 and included in the Canada Social Transfer on an ongoing basis starting in 2008–09; and a 3 per cent escalator starting in 2009–10.

Source: Department of Finance.



This transfer to provinces and territories is only one way that the federal government provides support for children.

Federal Support for Early Learning and Child Care

The Government of Canada will provide nearly \$5.6 billion in 2007–08 in support of early learning and child care through transfers, direct spending and tax measures:

- \$1.1 billion in cash transfers to provinces and territories.
- \$2.4 billion annually through monthly payments to parents for every child under the age of 6 through the Universal Child Care Benefit.
- \$695 million in recognition of child care expenses through the child care expense deduction.
- Budget 2007 provides about \$1.5 billion per year in tax support for families with children through the new child tax credit.

Supporting Social Programs

In addition to the new investments for post-secondary education and child care spaces, the CST supports social programs that benefit some of Canada's most vulnerable. The CST supports provincial and territorial programs and services for low-income Canadians, helping to lessen the effects of poverty and support participation in the workforce. Examples of programs and services include income support, job counselling services, civil legal aid, and certain health benefits for low-income Canadians.

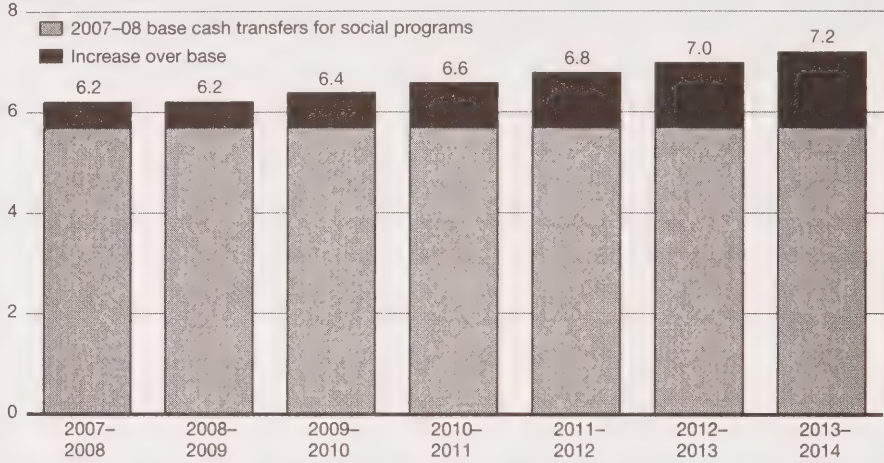
Funding in support of social assistance and social services will increase to \$6.2 billion in 2007–08, nearly \$700 million higher than in 2006–07 due to the increase in CST base funding and the investments to move the CST to an equal per capita cash allocation. As a result of the 3-per-cent annual escalator, this funding will increase to \$7.2 billion by 2013–14.



Chart 5

Increasing Transfer Support for Social Programs

billions of dollars



Note: New funding includes moving to equal per capita cash, which will provide \$511 million for social programs on an ongoing basis starting in 2007-08; and a 3 per cent escalator starting in 2009-10.

Source: Department of Finance.

This transfer to provinces and territories is only one way that the federal government provides support for social assistance and social services.



Federal Support for Social Programs

The Government of Canada will provide about \$25 billion in 2007–08 in support of social assistance, social services and income support:

- \$6.2 billion in cash transfers to provinces and territories through the CST, an increase of nearly \$700 million over 2006–07 levels.
- \$9.5 billion to support children, including the Canada Child Tax Benefit and the Children's Special Allowance.
- \$700 million to support persons with disabilities, including Labour Market Framework Agreements for Persons with Disabilities, the disability tax credit, and other measures. Budget 2007 announces the introduction of a new Registered Disability Savings Plan to improve the financial security and well-being of children with severe disabilities.
- \$1.4 billion to provide basic social development programs for First Nations in areas of federal responsibility.
- \$3.3 billion to support youth and housing, as well as programs for legal aid and immigration and refugee settlement.
- \$3.7 billion to support low- and modest-income Canadians through the goods and services tax (GST) credit.
- \$550 million in support for low- and modest-income working Canadians through the Working Income Tax Benefit, as announced in Budget 2007.

The CST Will Grow by \$3.7 Billion by 2013–14

Budget 2007 will add \$687 million to the CST base in 2007–08. Starting in 2008–09, a further \$800 million for post-secondary education and \$250 million for the creation of child care spaces will be added to the CST base. Beginning in 2009–10, this funding will be escalated by 3 per cent annually.

As a result, the CST will increase from its 2006–07 level of \$8.5 billion in cash transfers to over \$12.2 billion by 2013–14, a \$3.7-billion increase. Taken together, these actions are providing long-term, predictable and growing support for social priorities.



Table 3

New Investments in the Canada Social Transfer

	2006– 2007	2007– 2008	2008– 2009	2009– 2010	2010– 2011	2011– 2012	2012– 2013	2013– 2014
(millions of dollars)								
Canada Social Transfer (CST)	8,500	8,800						
CST base increase: move to equal per capita cash		687						
CST base increase: post-secondary education			800					
CST base increase: support for children ¹			250					
CST escalator				316	642	977	1,322	1,678
Total new investment levels		687	1,737	2,053	2,379	2,714	3,059	3,415
New CST levels	8,500	9,487	10,537	10,853	11,179	11,514	11,859	12,215
<div> <div></div> <div>3% annual escalator</div> <div></div> </div>								
Of which:²								
Support for children	800	850	1,100	1,133	1,167	1,202	1,238	1,275
Post-secondary education		2,435	3,235	3,332	3,432	3,535	3,641	3,751
Other social programs		6,202	6,202	6,388	6,579	6,777	6,980	7,189

Note: Totals may not add due to rounding.

¹ The transitional payment of \$250 million to support the creation of child care spaces in 2007–08 is not reflected in this table.

² 2007–08 figures based on provincial-territorial spending patterns.

Source: Department of Finance.



A New Approach to Labour Market Training

Canada already has a well-educated, highly skilled and mobile workforce, which has contributed to one of the most flexible and adaptable labour markets among OECD countries. In *Advantage Canada*, Canada's New Government recognized that we must never take our strength for granted, and that we must move forward together to meet the new labour market challenges facing Canada, including growing labour shortages and demographic challenges as our population ages.

To meet these new challenges, Budget 2007 delivers on a commitment to a new, more comprehensive approach to labour market training that will help provide training to those who need it, including under-represented groups, while also clarifying roles and responsibilities by recognizing that provinces and territories are best placed to design and deliver this programming. It does so by proposing a three-pronged strategy of a new approach to labour market training. More details can be found in Chapter 5 of *The Budget Plan* in the "Knowledge Advantage" section.

The Government will move forward to complete the transfer of responsibility for the delivery of Employment Insurance (EI) employment benefits and support measures to those provinces and territories that do not currently have full transfer Labour Market Development Agreements—Newfoundland and Labrador, Prince Edward Island, Nova Scotia, British Columbia and Yukon. These programs help EI clients find and maintain employment. Once agreements with these provinces and territories are reached, all of the approximately \$2 billion in EI labour market programming will be delivered across Canada by the provinces and territories.

Budget 2007 proposes to invest \$500 million annually starting in 2008–09 under a new labour market strategy to be developed with provinces and territories. The funding, to be allocated on an equal per capita basis, will be used to provide training opportunities for those unable to access training under current EI programs, and to encourage employers to provide more training to their workers. The Government will work with provinces and territories over the coming year to determine how this can best be achieved. The Government is prepared to consider providing future growth in funding for labour market programs after consultations with provinces and territories on how best to make use of new investments in labour market training and ensure reporting and accountability to Canadians.



The Government will also explore the feasibility of transferring to provinces and territories well over \$500 million of annual funding associated with existing federal labour market programs for youth, older workers and persons with disabilities for the delivery of these programs under the above strategy.

Through increased funding and greater emphasis on provincial and territorial delivery of labour market programs, the Government is meeting its commitment to provide a new approach to labour market training. This approach respects the primary role and responsibility that provinces and territories have in the design and delivery of training programs. It ensures an ongoing federal role in helping to enable provinces and territories to deliver integrated and one-stop, seamless labour market programming to all Canadians, regardless of their employment status, that can be tailored to the specific needs of the individual and employers.

Table 4

New Support for Labour Market Training

	2008– 2009	2009– 2010	2010– 2011	2011– 2012	2012– 2013	2013– 2014	Total
(millions of dollars)							
Total new support for labour market training	500	500	500	500	500	500	3,000

Source: Department of Finance.

The transfers and programs discussed above are not the only way that the federal government provides labour market training support.



Federal Support for Labour Market Programming

The Government of Canada will provide almost \$3.5 billion in 2007–08 in support of labour market programming through direct spending and tax measures:

- \$2.2 billion for Employment Insurance Part II employment benefits and support measures and pan-Canadian activities.
- \$340 million for the Aboriginal Human Resources Development Strategy, which assists Aboriginal people to prepare for, find and keep jobs, and \$26 million for the Aboriginal Skills and Employment Partnership initiative, which includes \$5 million from Budget 2007.
- \$310 million for the Youth Employment Strategy, which helps young people, particularly those facing barriers to employment, gain the skills, work experience and abilities they need to make a successful transition to the workplace.
- \$220 million for the Labour Market Framework Agreements for Persons with Disabilities to assist provinces and territories in improving the employment situation of Canadians with disabilities, and \$30 million for the Opportunities Fund for Persons with Disabilities to assist persons with disabilities to prepare for and obtain employment.
- \$100 million for the Apprenticeship Incentive Grant to support apprentices who have completed the first and second year of their apprenticeship in a Red Seal Program and \$200 million for the Apprenticeship Job Creation Tax Credit to encourage employers to hire new apprentices.
- \$45 million for the Targeted Initiative for Older Workers, which is a national cost-shared program to help older workers in vulnerable communities who have lost their jobs.



Providing Long-Term Predictable Support for Infrastructure

Canada needs modern, world-class infrastructure to make it a global leader for today and future generations, and to create a cleaner Canada. Modern, cutting-edge infrastructure matters to Canadians. It helps move people and goods to markets, allowing the economy to grow and prosper. Through public transit and water treatment systems, infrastructure investments will mean a cleaner, greener Canada.

While comparatively large infrastructure investments were made in the 1950s and 1960s, spending by all orders of government on public infrastructure as a proportion of gross domestic product declined over the subsequent three decades. After the fiscal restraint of the mid-1990s, investment in infrastructure has begun to rebound, but continued rapid growth in trade and environmental challenges are creating increased pressure on Canada's infrastructure.

Canada's New Government committed to early action in Budget 2006. Infrastructure support for provinces, territories and municipalities will have been increased to \$5 billion per year by 2009–10, a level eight times greater than those recorded during the 1994–95 to 2004–05 period.

As well as taking early action, Budget 2006 committed to put in place a new long-term plan for infrastructure support that would provide greater certainty to provinces, territories and municipalities, reflecting the long time spans involved in planning and building major infrastructure projects. *Advantage Canada* then set out the key elements of the Government's long-term plan for infrastructure.

Budget 2007 delivers on the Government's commitment by extending federal infrastructure support to provinces, territories and municipalities through to 2013–14. This approach provides greater predictability, flexibility and accountability, and makes an important contribution towards the efforts of Canada's New Government in the areas of the economy, the environment and energy security. In total, Budget 2007 provides more than \$16 billion towards the plan, which will include:

- Extending the Gas Tax Fund for municipalities.
- A Building Canada Fund, to be allocated among provinces and territories on an equal per capita basis.
- A national fund for gateways and border crossings, to be awarded on a merit basis.



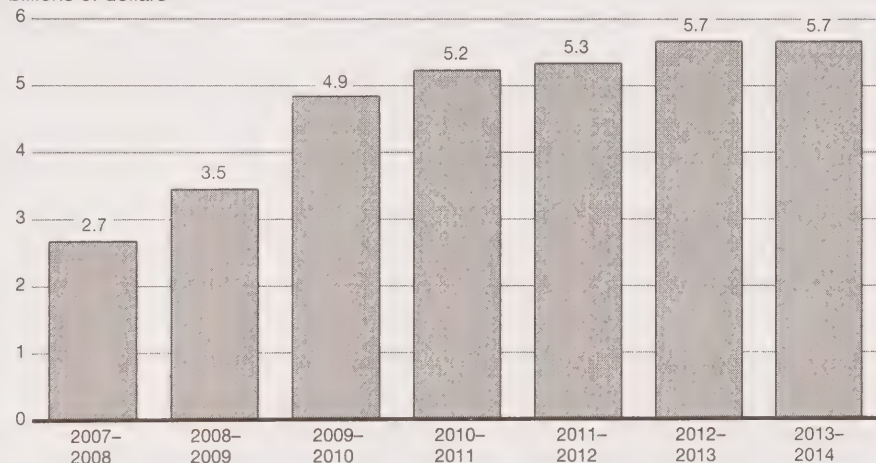
- A national fund for public-private partnerships, to be awarded among projects on a merit basis.
- An annual amount of \$25 million to be provided to each province and territory to support investments in national priorities throughout the country.
- Additional funding for the Asia-Pacific Gateway and Corridor Initiative.

Including the infrastructure funding in Budget 2006 and the increase from 57.1 per cent to 100 per cent in the GST rebate for municipalities, the new long-term plan will total \$33 billion over the next seven years.

Chart 6

Long-Term Plan for Infrastructure

billions of dollars



Source: Department of Finance.

These actions deliver long-term funding support for infrastructure that gives provinces, territories and municipalities the stability, certainty and support they need to strengthen Canada's infrastructure system. More details on these actions can be found in Chapter 5 of *The Budget Plan* in the "Infrastructure Advantage" section.



The Canada ecoTrust for Clean Air and Climate Change

As well as providing long-term funding, Canada must be prepared to be flexible and meet evolving challenges. In that respect, more than \$1.5 billion will be provided to help provinces and territories address the priorities of climate change and clean air.

Budget 2007 confirms the arrangements for the Canada ecoTrust for Clean Air and Climate Change by establishing a third-party trust to provide more than \$1.5 billion to provinces and territories that identify major projects that target real reductions in greenhouse gas emissions and air pollutants.

The Canada ecoTrust for Clean Air and Climate Change will provide provinces and territories with the flexibility to draw down the funds over three years or according to their respective schedule and priorities, upon passage of legislation. The Canada ecoTrust for Clean Air and Climate Change will be allocated on a per capita basis and will provide a minimum of \$15 million per province and \$5 million per territory to support efforts to develop technology, improve energy efficiency, and undertake other projects that will result in significant environmental benefits.

Providing Growing Support to Provinces and Territories

The actions in Budget 2006 and Budget 2007 will put support to provinces and territories on a long-term, predictable and principled footing as part of the Government's plan to restore fiscal balance in Canada. Budget 2007 will deliver an additional \$39 billion over seven years.



Table 5

**Fiscal Balance New Investments:
\$39 Billion Over Seven years**

	2007– 2008	2008– 2009	2009– 2010	2010– 2011	2011– 2012	2012– 2013	2013– 2014	Total
(millions of dollars)								
Equalization ¹	1,092	833	Formula Driven					1,925
Territorial Formula Financing ^{1,2}	87	75	Formula Driven					162
Subtotal	1,178	908						
Canada Social Transfer ³	937	1,737	2,053	2,379	2,714	3,059	3,415	16,295
Transition—CST-CHT Protection ⁴	226	24	17	11	4			282
Labour market training		500	500	500	500	500	500	3,000
Infrastructure	325	325	325	2,425	3,899	4,342	4,625	16,266
Of which:								
Extension of gas tax funding				2,000	2,000	2,000	2,000	8,000
Extension of infrastructure program funding				100	1,574	2,017	2,300	5,991
Equal per jurisdiction funding	325	325	325	325	325	325	325	2,275
Canada ecoTrust for Clean Air and Climate Change ⁵	506	506	506					1,519
Subtotal	1,994	3,092	3,402	5,314	7,117	7,901	8,540	37,361
Total	3,172	4,000	3,402	5,314	7,117	7,901	8,540	39,448

Note: Totals may not add due to rounding.

¹ Amounts in 2008–09 based on current estimates, subject to revisions in fall of 2007. In future, the cost of Equalization and Territorial Formula Financing generally grows with provincial revenues and the extent of fiscal disparities.

² Includes TFF, a one-time payment the Yukon for devolution, and funding to Nunavut for strengthening financial management, including amounts for data revisions.

³ Includes child care funding of \$250 million in 2007–08, provided outside the CST for first year.

⁴ Transition provisions to protect provinces or territories from declines in either the CHT or CST cash transfer relative 2007–08 levels prior to the implementation of the fiscal balance measures.

⁵ Canada ecoTrust for Clean Air and Climate Change notionally allocated over three years.



Providing Predictable and Growing Support to Provinces and Territories

The **Equalization and Territorial Formula Financing programs** are both legislated to 2013–14. Equalization payments will grow to more than \$12.7 billion in 2007–08, approximately \$1.5 billion more than in 2006–07. TFF payments will grow to \$2.2 billion, \$115 million more than in 2006–07. Future payments in both programs will be formula-driven and responsive to changes in the fiscal situation of provinces and territories.

Other transfers are also put on a long-term, predictable and growing track to 2013–14. Altogether, funding under these transfers will have grown to \$48.7 billion by 2013–14, a 60-per-cent increase compared to 2005–06:

- **Canada Health Transfer**—Long-term support that will continue to grow by 6 per cent annually to reach \$30.3 billion in 2013–14.
- **Canada Social Transfer**—Long-term support that will continue to grow by 3 per cent annually to reach \$12.2 billion in 2013–14.
- **Labour market training**—Long-term support that will provide \$3 billion in total support by 2013–14.
- **Infrastructure**—Long-term support that will provide \$5.7 billion in 2013–14 for provincial, territorial and municipal infrastructure.

The **Canada ecoTrust for Clean Air and Climate Change** will provide support of more than \$1.5 billion to provinces and territories.



Table 6

Fiscal Balance Restored: Total Funding Levels

	2005– 2006	2006– 2007	2007– 2008	2008– 2009	2009– 2010	2010– 2011	2011– 2012	2012– 2013	2013– 2014
(millions of dollars)									
Equalization and Territorial Formula Financing									
Equalization ¹	10,900	11,282	12,768	12,918	Formula Driven →				
Territorial Formula Financing ¹	2,000	2,106	2,221	2,285	Formula Driven →				
Total	12,900	13,388	14,989	15,203					
Other Support									
Canada Health Transfer ²	19,000	20,140	21,348	22,629	23,987	25,426	26,952	28,569	30,283
Canada Social Transfer ^{2, 3}	8,225	8,500	9,737	10,537	10,853	11,179	11,514	11,859	12,215
Labour market training				500	500	500	500	500	500
Infrastructure ⁴	3,197	3,114	4,335	4,653	5,442	5,597	5,669	5,698	5,680
Canada ecoTrust for Clean Air and Climate Change ⁵			506	506	506				
Total	30,422	31,754	35,927	38,826	41,288	42,702	44,635	46,626	48,678

Notes: Budget 2007 also fulfills outstanding commitments under the Canada-Ontario Agreement and the agreements with Manitoba and Saskatchewan for training. Funding of \$574 million for Ontario, \$21.6 million for Manitoba, and \$18.5 million for Saskatchewan will be provided through a third-party trust upon passage of legislation. This trust provides provinces with the flexibility to draw down funds over two years or according to their respective schedules and priorities. Totals may not add due to rounding.

¹ Amounts for 2008–09 based on current estimates, subject to revisions in fall of 2007. The table does not include Offshore Accord offset amounts or one-time payments announced in Budget 2006.

² CHT and CST funding in 2005–06 do not reflect notional allocations of CHST trust supplements of \$1.5 billion.

³ Includes child care funding of \$250 million in 2007–08.

⁴ Includes \$33 billion for the long-term plan for infrastructure as well as \$4 billion from sunseting infrastructure initiatives over 2007–08 to 2013–14 (see Table 5.3).

⁵ Canada ecoTrust for Clean Air and Climate Change notionally allocated over three years.

Source: Department of Finance.



Restoring Fiscal Balance With Canadian Taxpayers

Canadians pay too much in taxes. The Government is working to restore fiscal balance with Canadians, and has and will continue to reduce taxes so that it only raises the revenues that it needs to fulfill its responsibilities.

More Tax Relief for Canadians

Budget 2007 delivers \$9.7 billion in total tax relief. This leaves more money in the pockets of Canadians and provides businesses with a more competitive tax environment.

A New Approach to Allocating Surpluses

Budget 2006 acknowledged concerns over the transparency of federal budget planning. In *Advantage Canada*, the Government introduced a Tax Back Guarantee to ensure that all Canadians benefit directly from federal debt reduction through lower taxes. Budget 2007 goes further by proposing to legislate the Tax Back Guarantee. This ensures that as the Government reduces its debt, it will be required to use the interest savings from this debt reduction to lower personal income taxes.

Any unplanned surpluses will be applied to reduce federal debt, and all associated interest savings will be used to further reduce personal income taxes. The Tax Back Guarantee makes more transparent for Canadians how the Government intends to use federal surpluses and ensures that such surpluses directly benefit Canadians.

This approach builds on the actions taken in 2006 to enhance transparency in budget planning: the Government established a Parliamentary Budget Officer, made a commitment to provide updates of fiscal projections for the current fiscal year on a quarterly basis, improved the transparency of financial information in the budget and the Public Accounts of Canada, and introduced a two-year budget-planning horizon.



Dedicating Interest Savings From Debt Reduction to Personal Income Tax Reduction Under the Tax Back Guarantee

Calculation of Permanent Personal Income Tax Reduction

Debt Reduction

The federal debt was reduced by \$13.2 billion in 2005–06. The Government is planning to reduce the debt by a further \$9.2 billion in 2006–07 and \$3 billion in each of 2007–08 and 2008–09.

Interest Savings

This debt reduction translates into \$1.1 billion per year in interest savings in 2007–08, rising to \$1.3 billion in 2008–09.

Personal Income Tax Reduction

In Budget 2007, the Tax Back Guarantee provides \$1.1 billion in 2007–08 and \$1.3 billion in 2008–09 to permanently reduce personal income taxes. Should the final surplus for 2006–07 be higher than currently projected, the additional interest savings would be allocated to personal income tax reductions in Budget 2008.

Disciplined Spending

Budget 2007 continues the Government's disciplined spending by limiting the growth in program spending, on average, to below the rate of growth of the economy and implementing a new Expenditure Management System.



Clarifying Roles and Responsibilities and Limiting the Use of the Federal Spending Power

Canada's New Government is guided by the principle of enhancing the accountability of governments through the clarification of their respective roles and responsibilities. Budget 2007 continues to deliver on this commitment. Transfers have been reformed to clarify their purpose and federal contribution, consistent with the recognition that provinces and territories are best placed to deliver services in their areas of responsibility such as health care, post-secondary education and labour market training.

The tax cuts that are being provided in Budget 2006 and Budget 2007 mean that excess federal revenues are being used primarily to reduce taxes rather than launch new federal programs in areas that are primarily of provincial and territorial responsibility.

New spending has focused on areas of federal responsibility and on supporting provinces and territories—through strengthened fiscal arrangements in areas of shared priorities. To the extent that new initiatives have been introduced in areas of primary provincial and territorial responsibility, it has been done in a respectful manner, at the request of provinces and territories.

Budget 2007 reconfirms the Government's commitment to limit the use of the federal spending power to ensure that:

- New cost-shared programs in areas of provincial responsibility have the consent of the majority of provinces to proceed.
- Provinces and territories have the right to opt out of cost-shared federal programs with compensation if they offer similar programs with comparable accountability structures.

To support the commitment to limit the use of the spending power, the Government will report, starting with this budget and in all future budgets, on new investments in areas of core federal and shared responsibility and in transfers to support provinces and territories.



Respecting Roles and Responsibilities

Canada's New Government has committed to respecting roles and responsibilities by not spending in areas of provincial-territorial jurisdiction. In order to monitor progress, the Government will report on the nature of federal spending in each budget.

The table below highlights spending in Budget 2007 according to area of responsibility.

- **Federal/shared responsibility:** Refers to new spending in areas that are considered core federal responsibility, including defence, international assistance, national parks and public security, and in areas of shared priority, such as agriculture, environment, health care and immigration.
- **Restoring fiscal balance/funding to provinces and territories:** Refers to new funding that is being provided to provinces and territories. This includes additional funding for Equalization and Territorial Formula Financing, as well as support for shared and provincial-territorial responsibilities, such as post-secondary education, early childhood development, child care, social services, infrastructure, labour market training and modernizing the health care system.

Budget 2007				
	2006-07	2007-08	2008-09	Average
	(percentage)			
New Spending				
Federal/shared responsibility	29	45	32	35
Restoring fiscal balance/funding to provinces and territories	71	55	68	65

The Government will continue to further clarify roles and responsibilities, and will explore with provinces and territories ways to formalize its commitment to limit the use of the federal spending power to ensure respect for provincial-territorial responsibility.



Building a Stronger Economic Union

Restoring fiscal balance is only a means to an end. Canadians want their governments to move collectively beyond old disputes over funding issues and work more effectively and collaboratively together. They want their governments to deliver results for people and families through better programs. The funding provided in this budget will help achieve this important goal. Canadians also want their governments to build a stronger economic union, which is vital to our future prosperity and standard of living.

Advantage Canada outlined a comprehensive strategy aimed at fostering a stronger economic union. The plan committed the federal government to engage with provinces and territories to enhance internal trade and labour mobility, to create a common securities regulator, and to encourage provinces and territories to move ahead with the harmonization of sales taxes with the GST.

Progress has recently been made in working with provinces and territories on a number of fronts, but more must be done to reduce structural impediments to a more productive and competitive economy.

Progress on Economic Union Issues

Over the past months, encouraging progress has been made in working with provinces and territories on fostering a stronger economic union, notably:

- The Trade, Investment and Labour Mobility Agreement signed in 2006 between Alberta and British Columbia goes much further than the Agreement on Internal Trade, and is serving as a model for ongoing discussions on improving internal trade across Canada.
- In September 2006, all provinces reached agreement on an ambitious action plan to reduce barriers to interprovincial trade and enhance labour mobility.
- The October 2006 Canada-Ontario agreement on single corporate tax will reduce the annual compliance costs to Ontario businesses by \$100 million.
- At the December 2006 Finance Ministers Meeting, Ministers agreed to work together in three specific areas—reduced paper burden on businesses, tax harmonization and labour mobility—and to discuss progress at the next Finance Ministers Meeting expected in June 2007.



Budget 2007: Concrete Steps to a Stronger Economic Union

Budget 2007 delivers a comprehensive set of proposals to further strengthen the economic union. Specifically, Budget 2007:

- Delivers comprehensive tax relief that leaves more money in the pockets of Canadians and provides businesses with the competitive tax environment needed to increase prosperity.
- Provides a financial incentive to provinces to eliminate or accelerate the elimination of their capital taxes.
- Implements a Working Income Tax Benefit to make work pay for low-and modest-income Canadians.
- Strengthens our labour markets through a new approach to labour market training and by attracting and retaining skilled and experienced immigrants, making improvements to the Temporary Foreign Worker Program and establishing the Foreign Credential Referral Office.
- Delivers science and technology investments that complement significant new investments in post-secondary education, and that will sustain Canada's leadership in primary research and help commercialize knowledge by better aligning research investments with the needs of businesses.
- Launches a plan to create a Canadian advantage in global capital markets.
- Helps Canadian businesses take advantage of expanding global market opportunities through a Global Commerce Strategy.

Fiscal Balance Has Been Restored

Budget 2007 fulfills the Government's commitment to restore fiscal balance. It is a comprehensive, long-term plan that responds to concerns raised by provinces and territories. It is a sustainable, affordable plan that provides additional funding to provinces and territories of more than \$39 billion over seven years. Canada's New Government is restoring fiscal balance by:

- Renewing and strengthening Equalization and Territorial Formula Financing by returning these programs to a principles-based approach while respecting the federal government's existing commitments to certain provinces.
- Putting fiscal support to provinces and territories for health care, post-secondary education, child care spaces, labour market training and infrastructure on a long-term, predictable footing.



- Increasing budget transparency and accountability for taxpayers' money by using a new approach to directing unanticipated surpluses to personal income tax reductions through the Tax Back Guarantee.
- Bringing more clarity to the delineation of roles and responsibilities among governments in the federation by focusing on core federal responsibilities and limiting the use of the federal spending power in areas of provincial-territorial responsibility.
- Taking concrete steps to a stronger economic union.

A Better Future for Canada

Canada's New Government promised to restore fiscal balance, and Budget 2007 delivers on this commitment.

The Government will maintain fiscal balance by respecting the principles it has established. It will also work on the economic plan set out in *Advantage Canada* to build a stronger economy and make Canada a more prosperous country by:

- Making its spending more effective, results-oriented and focused on core areas of federal responsibility.
- Working with provinces and territories to accelerate progress on more open and free internal markets.
- Reducing taxes and improving the tax system to enhance incentives to save, work and invest, and strengthen our international tax competitiveness.
- Pursuing a more competitive business tax system including by encouraging the harmonization of provincial retail sales taxes with the GST, effectively eliminating retail sales taxes on business inputs and capital goods.
- Working with provinces and other partners to create a Canadian advantage in global capital markets, including a common securities regulator that administers proportionate, more principles-based regulations for the benefit of investors, businesses and the economy.

These are important issues for all Canadians. In the months ahead, Canada's New Government will be looking to provinces, territories and stakeholders to work together to accelerate progress so that all Canadians can benefit from a more prosperous and dynamic Canadian economy and society.



Table 7

A Stronger Federation

	2006-07	2007-08	2008-09	Total
		(millions of dollars)		
Equalization ¹		1,092	833	1,925
Territorial Formula Financing ^{1, 2}	54	87	75	216
Canada Social Transfer				
Move to equal per capita cash		687	687	1,374
Post-secondary education investment			800	800
Creating child care spaces ³		250	250	500
Transition—CHT-CST		226	24	250
Subtotal—CST		1,163	1,761	2,924
Labour market training			500	500
Equal per jurisdiction funding for infrastructure		325	325	650
Canada ecoTrust for Clean Air and Climate Change	1,519			1,519
Outstanding provincial agreements	614			614
Total—A Stronger Federation	2,187	2,667	3,494	8,348
Less: Funding included in previous budgets ⁴	122	553	760	1,435
Net total—fiscal balance	2,066	2,114	2,734	6,913

¹ Amounts for 2008-09 based on current estimates, subject to revisions in fall 2007.

² Includes Territorial Formula Financing, one-time payments for the Northwest Territories for a large tax refund and Yukon for devolution, funding to Nunavut for strengthening financial management, and amounts for data revisions.

³ Payment in 2007-08 outside the CST.

⁴ The Canada Social Transfer initiatives, the labour market strategy and the outstanding provincial agreements are partly funded from existing sources of funds.



Annex 1

Recent Evolution of Fiscal Balance in Canada

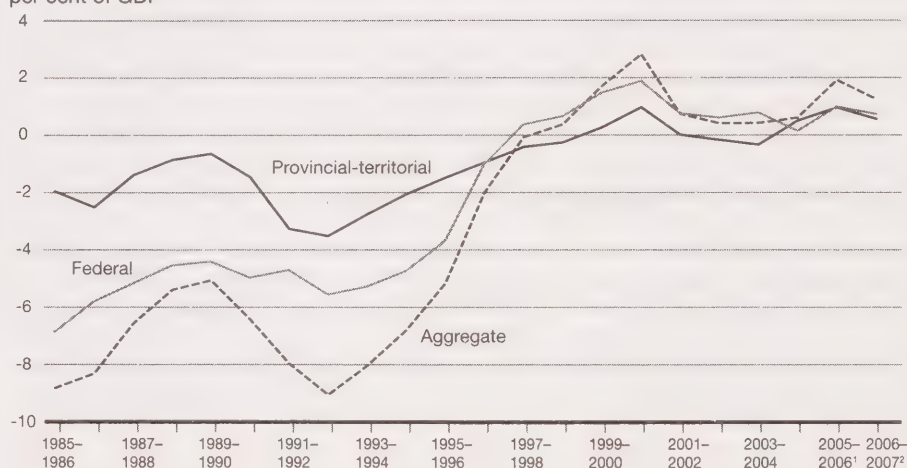
The fiscal position of the federal and provincial-territorial governments remains strong

Chart 7

Federal and Provincial-Territorial Budgetary Balances

(Public Accounts Basis)

per cent of GDP



¹For this and subsequent charts, figures for the combined provincial-territorial sector and the aggregate surplus for 2005-06 are estimates.

² Projection.

Sources: Federal and provincial-territorial Public Accounts and budgets.



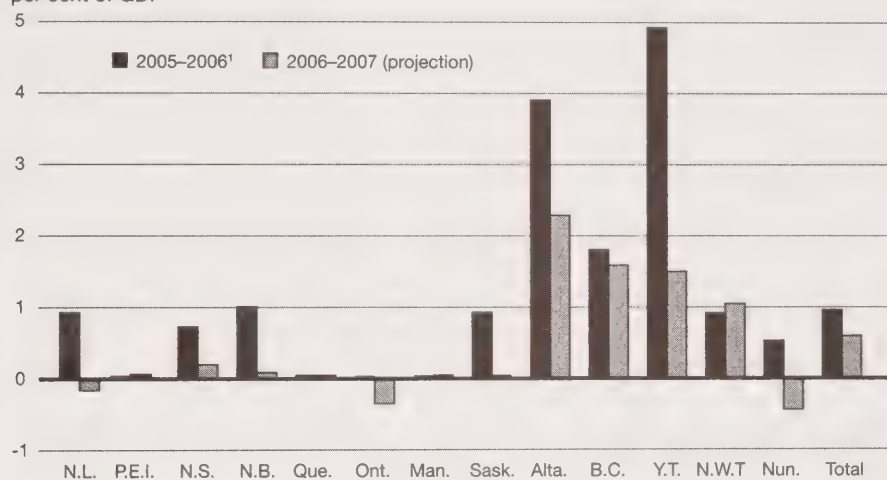
All provincial-territorial governments were in surplus in 2005-06

Chart 8

Provincial-Territorial Budgetary Balances

(Public Accounts Basis)

per cent of GDP



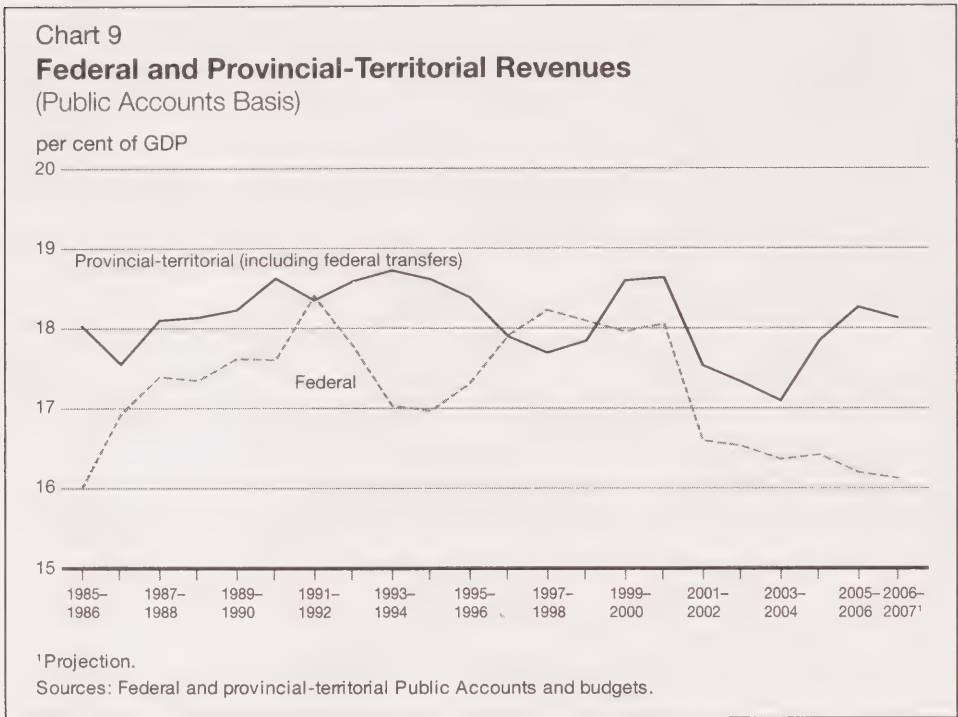
Note: The Ontario and British Columbia budgetary balances for 2006-07 include contingency reserves of \$1 billion and \$300 million, respectively.

¹ Estimate for Nunavut.

Sources: Provincial-territorial Public Accounts and budgets.



The gap between federal and provincial-territorial revenues is widening...





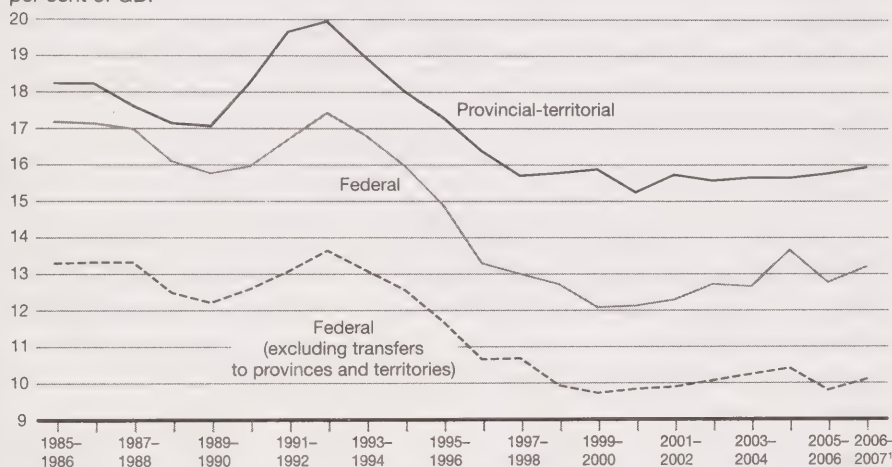
...while the gap between federal and provincial-territorial program spending remains stable

Chart 10

Federal and Provincial-Territorial Program Spending

(Public Accounts Basis)

per cent of GDP



¹ Projection.

Sources: Federal and provincial-territorial Public Accounts and budgets.



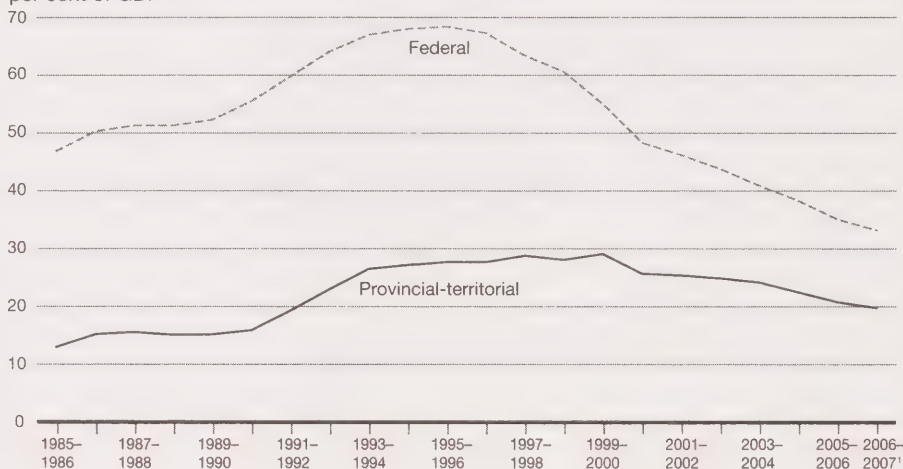
Debt burdens continue to decline, although the federal burden remains higher...

Chart 11

Federal and Provincial-Territorial Debt

(Public Accounts Basis)

per cent of GDP



¹Projection.

Sources: Federal and provincial-territorial Public Accounts and budgets.



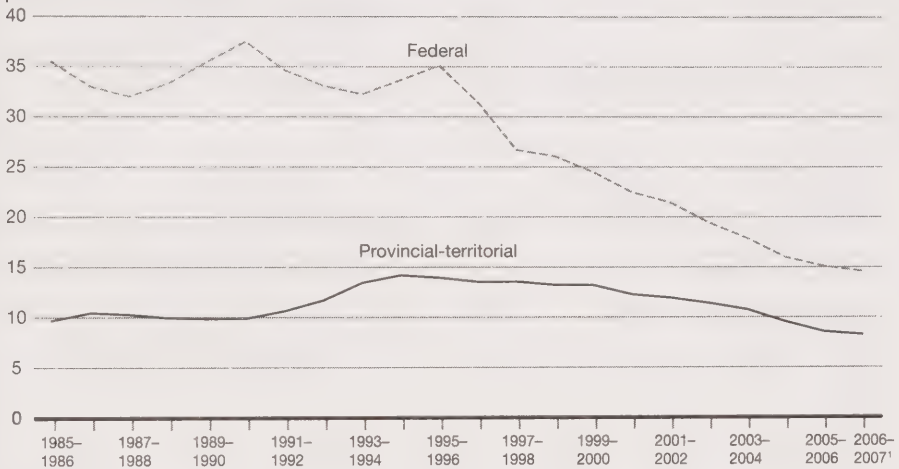
...but debt charges are falling as a share of total revenues

Chart 12

Federal and Provincial-Territorial Debt Charges

(Public Accounts Basis)

per cent of total revenues



¹ Projection.

Sources: Federal and provincial-territorial Public Accounts and budgets.



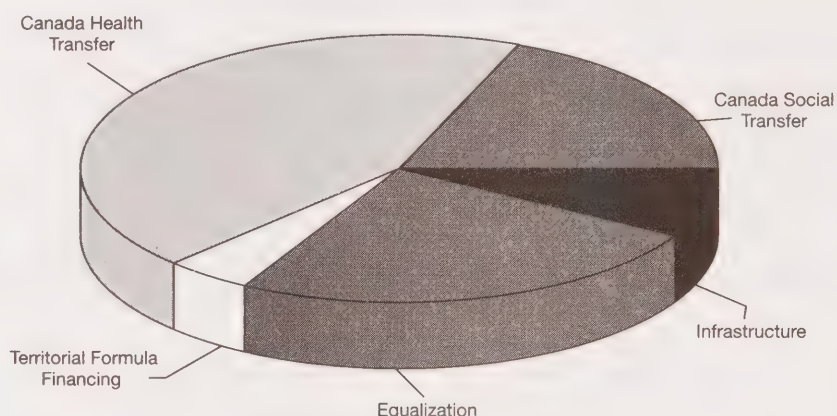
Annex 2

Restoring Fiscal Balance for a Stronger Federation

The plan to restore fiscal balance ensures that the Government of Canada provides significant support to provinces, territories and municipalities

Chart 13

Federal Cash Support in 2007–08: Over \$51 Billion

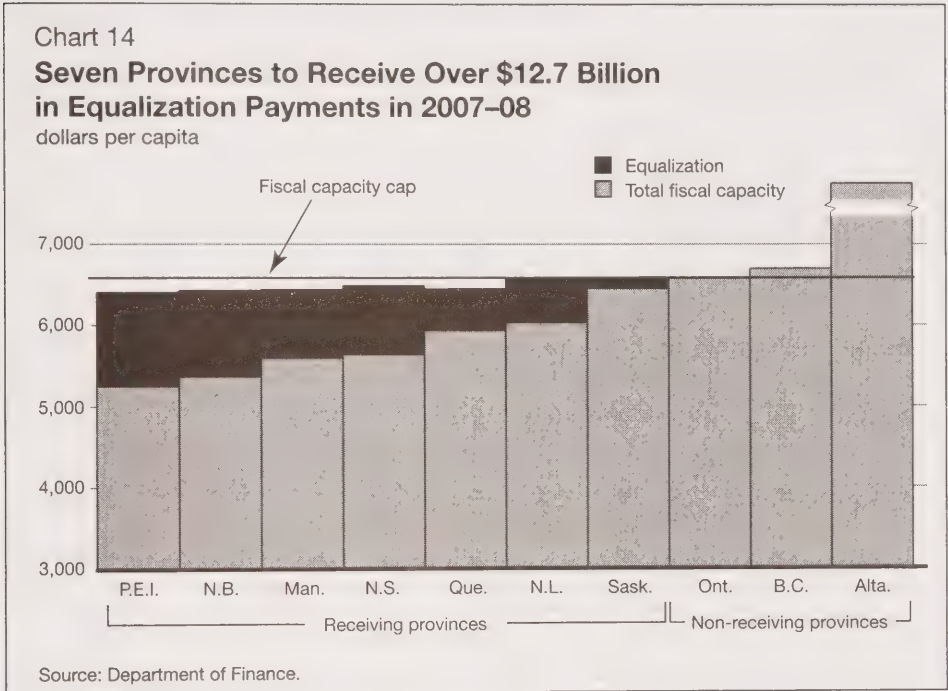


Note: Canada Health Transfer includes 2004 Wait Times Reduction Transfer. Canada Social Transfer includes transition funding for creation of child care spaces. Infrastructure support includes the value of the increased rebate of GST that municipalities pay.

Source: Department of Finance.



The new Equalization formula will ensure that all provinces can provide reasonably comparable programs and services

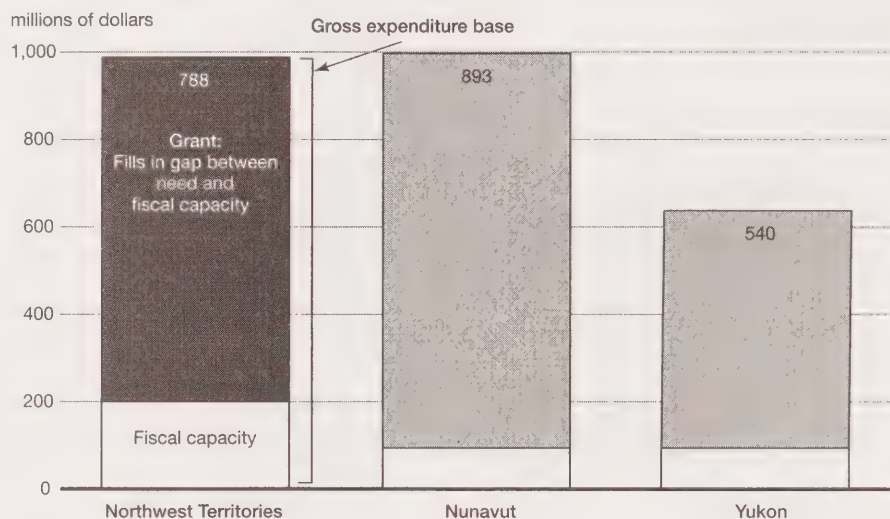




The new Territorial Formula Financing program is stronger and better recognizes the unique circumstances in the north

Chart 15

Territories to Receive \$2.2 Billion Through TFF in 2007–08



Source: Department of Finance.

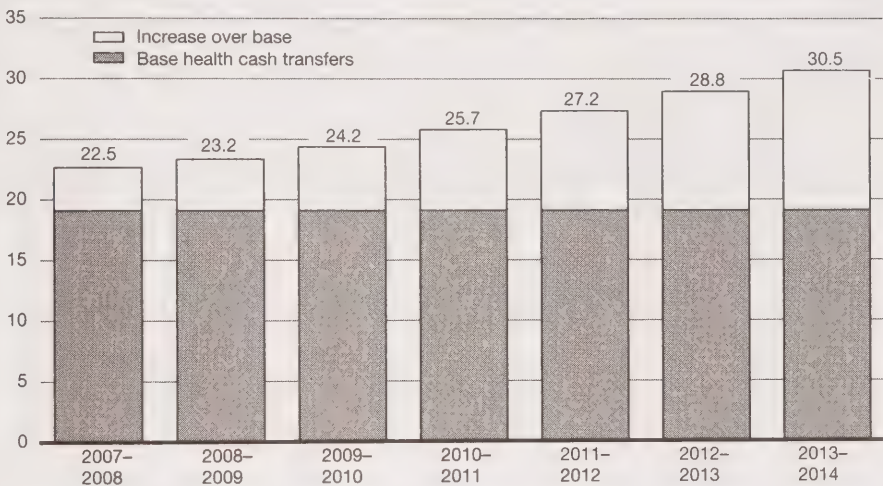


The Canada Health Transfer has a legislated escalator of 6 per cent a year and will provide growing funding for health care

Chart 16

Health Transfers to Rise From \$22.5 Billion in 2007–08 to \$30.5 Billion in 2013–14

billions of dollars



Note: Includes Canada Health Transfer and 2004 Wait Time Reduction Transfer.

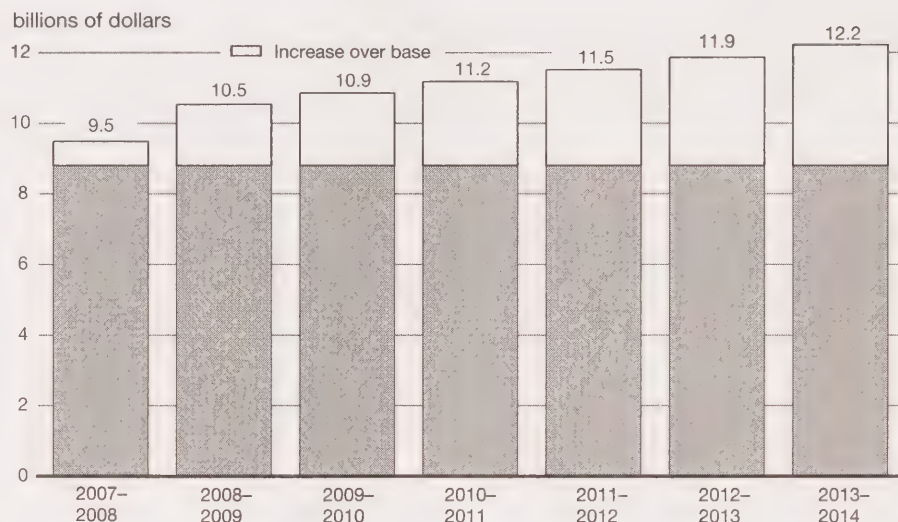
Source: Department of Finance.



New investments in the Canada Social Transfer and a new legislated escalator of 3 per cent a year will provide growing funding for social priorities

Chart 17

CST to Rise From \$9.5 Billion in 2007–08 to \$12.2 Billion in 2013–14



Note: New funding includes moving to equal per capita cash, which will provide \$687 million on an ongoing basis starting in 2007–08; new investment in post-secondary education, which will provide \$800 million on an ongoing basis starting in 2008–09; new investment for the creation of child care spaces, which will provide \$250 million on an ongoing basis starting in 2008–09; and a 3 per cent escalator starting in 2009–10.

Source: Department of Finance.

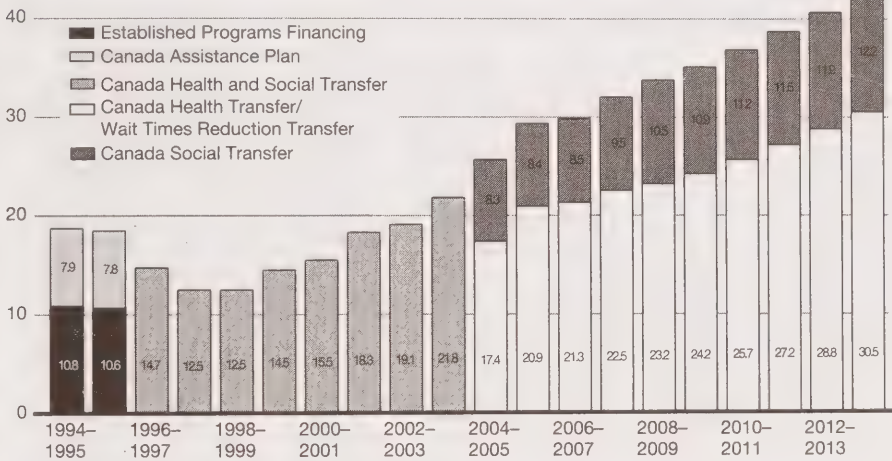


Combined transfer support for health and social programs will be much larger than before, and will grow at a predictable rate

Chart 18

Retrenchment and Growth in Health and Social Cash Transfers

billions of dollars



Source: Department of Finance.

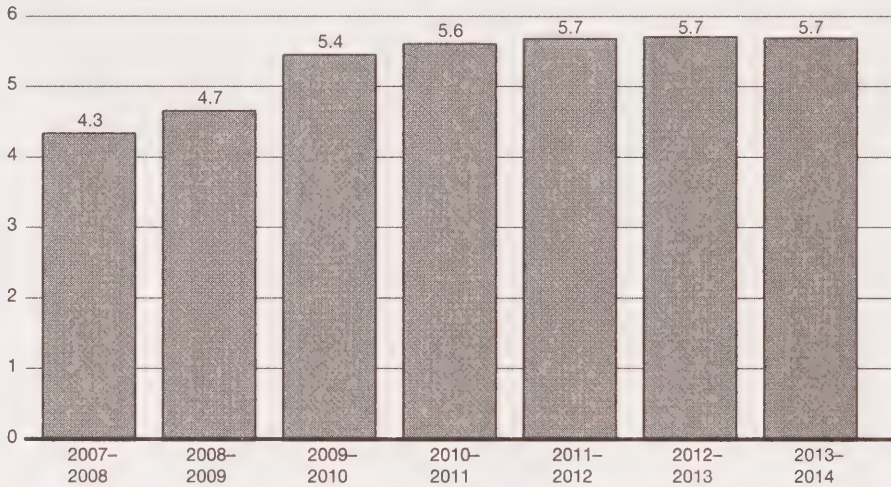


Infrastructure funding will be put on long-term basis to provide provinces, territories and municipalities the support they need to strengthen infrastructure

Chart 19

**Federal Support for Infrastructure
Totalling \$37 Billion Over Seven Years**

billions of dollars



Note: Includes \$33 billion from the Long-Term Plan for Infrastructure as well as \$4 billion from sunseting infrastructure initiatives.

Source: Department of Finance.



Budget 2007 also provides support for other priorities

Table 8

Additional Support for Provinces and Territories

	2007–08	2008–09	2009–10
	(millions of dollars)		
Labour market training		500	500
Canada ecoTrust for Clean Air and Climate Change	506	506	506
Patient Wait Times Guarantee Trust	204	204	204
Immunization Trust	100	100	100
Total	810	1,310	1,310

Notes: Labor market training ongoing to 2013–14. Totals may not add due to rounding.

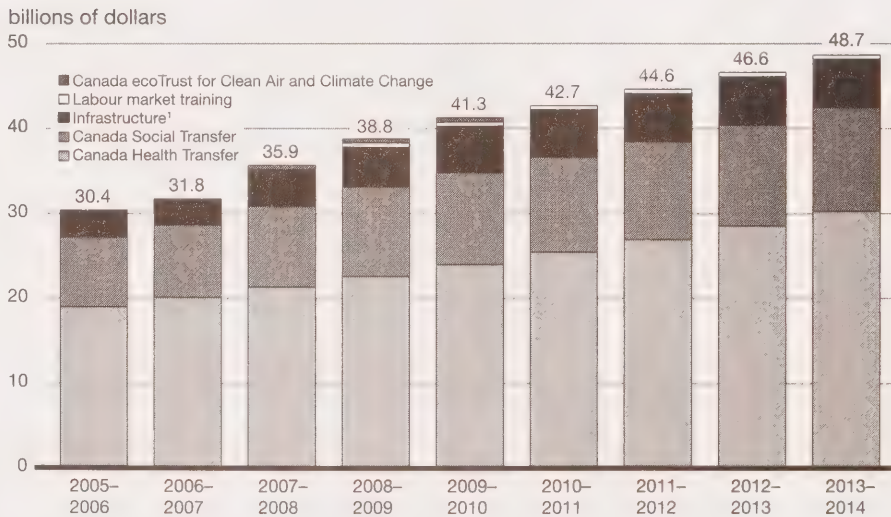
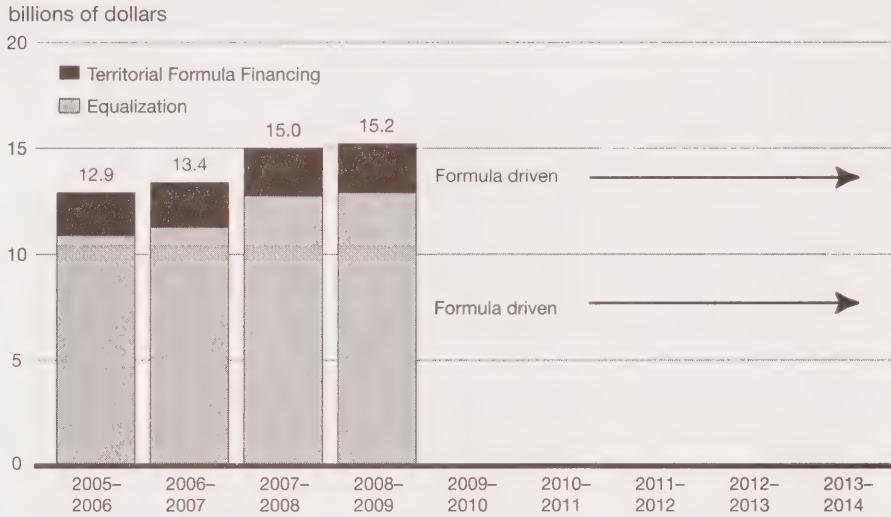
Source: Department of Finance.



With fiscal balance restored, transfers will grow significantly and will be larger than ever

Chart 20

By 2013–14, Total Federal Support Will Grow to Over \$48 Billion



¹ Infrastructure support includes the value of the increased rebate of GST that municipalities pay.

Source: Department of Finance.



Annex 3

Major Federal Transfers

Table 9

Equalization Entitlements (1993–94 to 2007–08)

Year	N.L.	P.E.I.	N.S.	N.B.	Que.	Man.	Sask.	B.C.	Canada
(millions of dollars)									
1993–94	900	175	889	835	3,878	901	486	–	8,063
1994–95	958	192	1,065	927	3,965	1,085	413	–	8,607
1995–96	932	192	1,137	876	4,307	1,051	264	–	8,759
1996–97	1,030	208	1,182	1,019	4,169	1,126	224	–	8,959
1997–98	1,093	238	1,302	1,112	4,745	1,053	196	–	9,738
1998–99	1,068	238	1,221	1,112	4,394	1,092	477	–	9,602
1999–00	1,169	255	1,290	1,183	5,280	1,219	379	125	10,900
2000–01	1,112	269	1,404	1,260	5,380	1,314	208	–	10,948
2001–02	1,055	256	1,315	1,202	4,679	1,362	200	240	10,310
2002–03	875	235	1,122	1,143	4,004	1,303	106	71	8,859
2003–04	766	232	1,130	1,142	3,764	1,336	–	320	8,690
2004–05 ¹	762	277	1,313	1,326	4,155	1,607	652	682	10,774
2005–06	861	277	1,344	1,348	4,798	1,601	82	590	10,900
2006–07 ²	632	291	1,386	1,451	5,539	1,709	13	260	11,282
2007–08 ³	477	294	1,308	1,477	7,160	1,826	226	–	12,768

Note: Totals may not add due to rounding.

¹ Entitlements for 2004–05 exclude \$150 million in additional Equalization related to the 2004 renewal.

² Figures for 2006–07 are as outlined in Budget 2006 and do not include one-time adjustments.

³ Figures for 2007–08 are as proposed in Budget 2007.

Source: Department of Finance.



Table 10

Territorial Formula Financing Entitlements (1993–94 to 2007–08)

Year	Yukon	Northwest Territories ¹	Nunavut ¹	Canada
(millions of dollars)				
1993–94	289	861	—	1,150
1994–95	289	892	—	1,181
1995–96	291	906	—	1,197
1996–97	289	908	—	1,197
1997–98	307	921	—	1,229
1998–99	310	935	—	1,246
1999–00	319	493	520	1,333
2000–01	336	310	566	1,212
2001–02	359	546	613	1,518
2002–03	372	588	656	1,616
2003–04	435	626	692	1,754
2004–05	466	678	756	1,900
2005–06	487	714	799	2,000
2006–07 ²	506	739	825	2,070
2007–08 ³	540	788	893	2,221

Note: Totals may not add due to rounding.

¹ Nunavut was created on April 1, 1999. After this date, TFF payments previously made to the Northwest Territories were divided between the Northwest Territories and Nunavut.

² Figures for 2006–07 are as outlined in Budget 2006 and do not include one-time adjustments or supplementary payments, which increased the total payments to \$2,106 million.

³ Figures for 2007–08 are as proposed in Budget 2007.

Source: Department of Finance.



Table 11
Health and Social Cash Transfers (1993-94 to 2007-08)

Year	N.L.	P.E.I.	N.S.	N.B.	Que.	Ont.	Man.	Sask.	Alta.	B.C.	Y.T.	N.W.T.	Nun.	Canada
						(millions of dollars)								
1993-94	EPF 236	54	375	305	2,919	3,913	453	408	1,012	1,349	13	22	-	11,059
	CAP 179	38	263	205	2,652	2,388	308	226	613	841	12	28	-	7,751
1994-95	EPF 228	53	366	297	2,856	3,829	442	389	980	1,353	12	22	-	10,829
	CAP 195	36	267	204	2,694	2,509	303	241	524	882	11	31	-	7,897
1995-96	EPF 219	52	357	289	2,787	3,707	435	390	964	1,400	12	24	-	10,637
	CAP 195	36	267	204	2,694	2,509	303	241	520	835	11	31	-	7,846
1996-97	CHST 345	71	508	401	4,512	4,787	598	500	1,112	1,843	18	47	-	14,742
1997-98	CHST 283	61	432	338	3,900	3,885	507	430	878	1,724	19	44	-	12,500
1998-99	CHST 276	61	432	338	3,863	3,810	507	433	894	1,827	19	41	-	12,500
1999-00	CHST 289	71	488	388	3,983	4,715	587	513	1,311	2,105	20	9	22	14,500
2000-01	CHST 296	74	512	409	4,179	5,135	623	529	1,323	2,373	20	4	22	15,500
2001-02	CHST 323	86	585	479	4,718	6,527	735	640	1,508	2,638	21	19	21	18,300
2002-03	CHST 331	89	604	485	4,809	6,897	747	633	1,593	2,851	21	20	21	19,100
2003-04	CHST 360	96	657	527	5,254	7,640	814	717	1,774	2,916	23	23	24	20,825
	HRT 16	4	30	24	237	387	37	31	100	131	1	1	1	1,000
2004-05	CHT 264	70	477	383	3,838	5,710	595	507	1,237	2,138	17	18	18	15,270
	CST 144	38	261	209	2,097	3,081	325	277	650	1,169	9	10	10	8,280
	HRT 24	6	44	35	354	582	55	47	150	197	1	2	1	1,500
2005-06	CHT 342	92	622	499	5,043	7,698	780	692	1,654	2,824	21	20	22	20,310
	CST 145	39	264	212	2,142	3,150	331	300	605	1,200	9	7	10	8,415
2006-07	CHT 333	90	610	489	4,994	7,584	769	721	1,676	2,812	21	17	23	20,140
	CST 144	39	264	212	2,159	3,153	332	326	630	1,216	9	6	10	8,500
2007-08	CHT 346	94	636	510	5,225	8,107	804	668	1,804	3,090	22	19	24	21,348
	CST 147	40	270	217	2,220	3,699	341	284	983	1,257	9	12	9	9,487
Child Care	4	1	7	6	58	97	9	7	26	33	0.2	0.3	0.2	250

Note: Totals may not add due to rounding. Includes cash transfers provided under Established Programs Financing (EPF) and the Canada Assistance Plan (CAP) up to 1995-96; the Canada Health and Social Transfer (CHST) up to 2003-04; the Health Reform Transfer (HRT) (2003-04 and 2004-05); the 2003 CHST cash supplement and 2004 CHST cash supplement for health based on notional drawdown schedules; the Canada Health Transfer and the Canada Social Transfer for 2004-05 and beyond; and the \$250 million transitional payment for the creation of child care spaces in 2007-08. Excludes tax transfers.

Source: Department of Finance.



Explanatory Notes for Provincial and Territorial Tables

The following explanatory notes apply to the provincial and territorial tables which follow.

Equalization for 2008–09: Based on current estimates. Numbers to be revised in the fall of 2007.

Canada Social Transfer: Includes child care transition funding in 2007–08 (provided outside the CST for this year only).

Canada Social Transfer and Canada Health Transfer: Includes Canada Health and Social Transfer supplements, which ended in 2005–2006.

Labour market training: Equal per capita share of \$500-million in new labour market training funding beginning in 2008–09.

Infrastructure: Funding reflects provincial–territorial share of the Gas Tax Fund, the Building Canada Fund, the equal per jurisdiction funding, the Public Transit Fund and the Public Transit Capital Trust. It does not include the value of the increased rebate of the GST that municipalities pay, funding under sunseting programs and amounts under the merit-based funds (i.e. the national fund for gateways and border crossings, the national fund for public-private partnership (P3) projects and the Asia-Pacific Gateway and Corridor Initiative). In total, the amounts under the excluded initiatives are: \$2.197 billion in 2005–06, \$2.214 billion in 2006–07, \$2.338 billion in 2007–08 and \$2.102 billion in 2008–09.

Canada ecoTrust for Clean Air and Climate Change: Share of \$1.5 billion notionally allocated over three years beginning in 2007–08. Canada ecoTrust for Clean Air and Climate Change is referred to as “Canada ecoTrust” in the tables that follow.

Total does not include funding from the Immunization Trust or the Patient Wait Times Guarantee Trust.

Totals may not add due to rounding.



Table 12
Canada

	2005-06	2006-07	2007-08	2008-09
		(millions of dollars)		
Equalization ¹	10,900	11,282	12,768	12,918
Offshore Accord offsets ¹	216	386	624	983
Territorial Formula Financing ²	2,035	2,106	2,221	2,285
Canada Health Transfer (CHT)	20,310	20,140	21,348	22,629
Transition CHT protection			118	
Canada Social Transfer (CST) ³	8,415	8,500	9,737	10,537
Transition CST protection			108	24
New labour market training funding				500
Infrastructure	1,000	900	1,997	2,551
Canada ecoTrust			506	506
Total	42,876	43,314	49,427	52,932
Increase over 2005-06		438	6,551	10,057

See explanatory notes on page 66.

¹ Assumes N.L. and N.S. will operate under previous program in 2007-08 and 2008-09; does not include one-time payment announced in Budget 2006. Offshore Accord offset amounts for 2008-09 based on current estimate.

² Includes supplementary payments in Budget 2005 and Budget 2006; excludes one-time adjustment to TFF in 2006-07.

³ Includes child care funding of \$250 million in 2007-08.

Table 13
Newfoundland and Labrador

	2005-06	2006-07	2007-08	2008-09
		(millions of dollars)		
Equalization ¹	861	632	477	197
Offshore Accord offsets ¹	189	329	494	757
Canada Health Transfer ²	342	333	347	361
Canada Social Transfer	145	144	151	162
New labour market training funding				8
Infrastructure	16	15	52	61
Canada ecoTrust			8	8
Total	1,553	1,453	1,529	1,554
Increase over 2005-06		-101¹	-25	0
Increase over 2005-06 (excluding Equalization and Offshore offsets)		-12	54	96

See explanatory notes on page 66.

¹ Based on current projections. For 2006-07, number does not include one-time payment announced in Budget 2006. For 2007-08 and 2008-09 assumes Newfoundland and Labrador operates under previous Equalization program. Numbers to be revised in fall of 2007. Offshore Accord offset amounts for 2008-09 based on current estimates. Equalization declines primarily due to growth in offshore revenues.

² Includes transition CHT protection payment in 2007-08.



Table 14

Prince Edward Island

	2005-06	2006-07	2007-08	2008-09
		(millions of dollars)		
Equalization	277	291	294	310
Canada Health Transfer ¹	92	90	95	99
Canada Social Transfer	39	39	41	44
New labour market training funding				2.1
Infrastructure	6	6	35	38
Canada ecoTrust			5	5
Total	414	426	470	498
Increase over 2005-06		12	56	84

See explanatory notes on page 66.

¹ Includes transition CHT protection payment in 2007-08.

Table 15

Nova Scotia

	2005-06	2006-07	2007-08	2008-09
		(millions of dollars)		
Equalization ¹	1,344	1,386	1,308	1,294
Offshore Accord offsets ¹	27	57	130	226
Canada Health Transfer ²	622	610	639	667
Canada Social Transfer	264	264	277	298
New labour market training funding				14
Infrastructure	29	26	73	89
Canada ecoTrust			14	14
Total	2,286	2,343	2,441	2,602
Increase over 2005-06		57	155	316

See explanatory notes on page 66.

¹ Based on current projections. For 2007-08 and 2008-09 assumes Nova Scotia operates under previous Equalization program. Numbers to be revised in fall of 2007. Offshore Accord offset amounts for 2008-09 based on current estimates.² Includes transition CHT protection payment in 2007-08.



Table 16

New Brunswick

	2005-06	2006-07	2007-08	2008-09
		(millions of dollars)		
Equalization	1,348	1,451	1,477	1,492
Canada Health Transfer ¹	499	489	512	534
Canada Social Transfer	212	212	222	239
New labour market training funding				11
Infrastructure	23	21	64	76
Canada ecoTrust			11	11
Total	2,082	2,173	2,286	2,363
Increase over 2005-06		91	203	281

See explanatory notes on page 66.

¹ Includes transition CHT protection payment in 2007-08.

Table 17

Quebec

	2005-06	2006-07	2007-08	2008-09
		(millions of dollars)		
Equalization	4,798	5,539	7,160	7,622
Canada Health Transfer ¹	5,043	4,994	5,246	5,492
Canada Social Transfer	2,142	2,159	2,278	2,458
New labour market training funding				117
Infrastructure	233	208	413	542
Canada ecoTrust			117	117
Total	12,216	12,900	15,214	16,348
Increase over 2005-06		685	2,999	4,133

See explanatory notes on page 66.

¹ Includes transition CHT protection payment in 2007-08.



Table 18

Ontario

	2005-06	2006-07	2007-08	2008-09
		(millions of dollars)		
Equalization	—	—	—	—
Canada Health Transfer	7,698	7,584	8,107	8,587
Canada Social Transfer	3,150	3,153	3,796	4,118
New labour market training funding				195
Infrastructure	379	341	664	876
Canada ecoTrust			195	195
One-time payment ¹		574		
Total	11,227	11,652	12,762	13,971
Increase over 2005-06		425	1,537	2,744

See explanatory notes on page 66.

¹ One-time payment for outstanding commitments under Canada-Ontario Agreement to be accounted for by the Government of Canada in 2006-07. Funding to be notionally allocated over two years (\$287 million in 2007-08 and \$287 million in 2008-09).

Table 19

Manitoba

	2005-06	2006-07	2007-08	2008-09
		(millions of dollars)		
Equalization	1,601	1,709	1,826	2,003
Canada Health Transfer ¹	780	769	807	845
Canada Social Transfer	331	332	350	378
New labour market training funding				18
Infrastructure	35	31	83	103
Canada ecoTrust			18	18
One-time payment ²		22		
Total	2,747	2,863	3,084	3,365
Increase over 2005-06		116	337	618

See explanatory notes on page 66.

¹ Includes transition CHT protection payment in 2007-08.

² One-time transition payment for outstanding commitments accounted for by the Government of Canada in 2006-07. Funding to be nationally allocated over two years (\$11 million in 2007-08 and \$11 million in 2008-09).



Table 20

Saskatchewan

	2005-06	2006-07	2007-08	2008-09
		(millions of dollars)		
Equalization ¹	82	13	226	0
Canada Health Transfer ²	692	721	756	790
Canada Social Transfer ³	300	326	342	335
New labour market training funding				15
Infrastructure	30	27	75	91
Canada ecoTrust			15	15
One-time payment ⁴		19		
Total	1,104	1,105	1,414	1,246
Increase over 2005-06		1	310	142

See explanatory notes on page 66.

¹ Equalization declines due to strong growth.² Includes transition CHT protection payment in 2007-08.³ Includes transition CST protection payments in 2007-08 and 2008-09.⁴ One-time transition payment for outstanding commitments regarding labour market training to be accounted for by the Government of Canada in 2006-07. Funding to be notionally allocated over two years (\$9.3 million in 2007-08 and \$9.3 million in 2008-09).

Table 21

Alberta

	2005-06	2006-07	2007-08	2008-09
		(millions of dollars)		
Equalization	—	—	—	—
Canada Health Transfer	1,654	1,676	1,804	1,917
Canada Social Transfer	605	630	1,009	1,095
New labour market training funding				52
Infrastructure	97	88	191	247
Canada ecoTrust			52	52
Total	2,356	2,394	3,056	3,363
Increase over 2005-06		37	700	1,006

See explanatory notes on page 66.



Table 22
British Columbia

	2005-06	2006-07	2007-08	2008-09
		(millions of dollars)		
Equalization ¹	590	260	—	—
Canada Health Transfer	2,824	2,812	3,090	3,269
Canada Social Transfer ²	1,200	1,216	1,344	1,400
New labour market training funding				66
Infrastructure	129	116	242	315
Canada ecoTrust			66	66
Total³	4,743	4,404	4,742	5,116
Increase over 2005-06		-339	-1	373

See explanatory notes on page 66.

¹ For 2006-07, number does not include one-time payment announced in Budget 2006. Equalization declines due to strong growth.

² Includes transition CST protection payment in 2007-08.

³ Total does not include funding for the Asia-Pacific Gateway Initiative.

Table 23
Yukon

	2005-06	2006-07	2007-08	2008-09
		(millions of dollars)		
Territorial Formula Financing ¹	495	514	540	561
Devolution Transfer Agreement Payment			4	
Canada Health Transfer	21	21	22	23
Canada Social Transfer ²	9	9	10	10
New labour market training funding				0.5
Infrastructure	5	5	32	34
Canada ecoTrust			2	2
Total	530	549	609	630
Increase over 2005-06		19	79	100

See explanatory notes on page 66.

¹ Includes supplementary payments in Budget 2005 and Budget 2006; excludes one-time adjustment to TFF in 2006-07.

² Includes transition CST protection payment in 2007-08.



Table 24

Northwest Territories

	2005-06	2006-07	2007-08	2008-09
		(millions of dollars)		
Territorial Formula Financing ¹	728	753	788	783
Canada Health Transfer	20	17	19	20
Canada Social Transfer	7	6	13	14
New labour market training funding				0.6
Infrastructure	5	5	32	34
Canada ecoTrust			2	2
Total	760	780	854	853
Increase over 2005-06		21	94	94

See explanatory notes on page 66.

Note: The Northwest Territories will also receive a corporate tax refund adjustment of \$54 million in 2007-08.

¹ Includes supplementary payments in Budget 2005 and Budget 2006.

Table 25

Nunavut

	2005-06	2006-07	2007-08	2008-09
		(millions of dollars)		
Territorial Formula Financing ¹	812	839	893	942
Canada Health Transfer	22	23	24	25
Canada Social Transfer ²	10	10	11	10
New labour market training funding				0.5
Infrastructure	5	5	32	34
Canada ecoTrust			2	2
Total	849	877	962	1,013
Increase over 2005-06		28	113	164

See explanatory notes on page 66.

Note: Nunavut will also receive \$5 million in 2007-08 and \$7 million in 2008-09 to strengthen financial management.

¹ Includes supplementary payments in Budget 2005 and Budget 2006; excludes one-time adjustment to TFF in 2006-07.

² Includes transition GST protection payments in 2007-08 and 2008-09.

